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ADMINISTRATIVE ACTION

The Techniques of Organization and Management

ADMINISTRATIVE ACTION

The Techniques of Organization and Management

by

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Administrative Action
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formerly
Principles of Administration

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To

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PREFACE

This book deals with principles and techniques of administration. It is written in terms of practical operating problems and seeks to give the executive a better perspective and understanding of his task of administering.

Most readers, then, will regard the book as a means of improving their efficiency as executives. Nevertheless, the subject being discussed also has broad social significance.

We are committed to an economic system in which the vast majority of operating decisions are made by independent business firms. We believe that the freedom of action thus accorded to the numerous operating units will, when working within the proper social framework, result in the greatest good for the greatest number. Western civilization has flourished under this concept of individual freedom and most of us believe it holds the best promise for the future.

If this arrangement for freedom of action is to be preserved, however, the many enterprises it nourishes must continue to be more efficient, over-all, than socialistic and communistic organizations. The enterprises must be able to adapt to technological and social changes. They must provide initiative and leadership in the use of the resources at their command. They must secure internal efficiency and, at the same time, maintain satisfactory relations with unions, customers, stockholders, and other interest groups.

The type of enterprise just described calls for executives of high competence. The development of such executives is of great importance to the long-run success of our democratic society.

The purpose of this book is to help improve the effectiveness of executives in modern enterprises.

A considerable body of knowledge exists about successful techniques for administering an enterprise. This knowledge, however, is in scattered places, often consisting of intangible know-how that is passed from one executive to his subordinates without any clear-cut formulation. Moreover, basic principles of administration are fre-

quently so encumbered with a specific application that their key features are not apparent.

This book seeks to (1) bring together existing knowledge regarding the basic processes of administration, (2) state these ideas in a practical and useful form, and (3) add new ideas and interpretations that will assist executives in administering dynamic enterprises.

The ideas in this book come from many people, as well as from personal experience in varied activities. My greatest debt is to those able executives I have worked with in an operating or consulting capacity. Among these, James O. McKinsey, formerly chairman of Marshall Field & Company and an outstanding management consultant; L. S. Fish, organization counsel for Standard Oil Company of California; and Luther Gulick, president of the Institute of Public Administration, have been especially inspiring bosses. A number of men have made very constructive suggestions on this manuscript, particularly Professor Billy E. Goetz of Antioch College and Professor Leon A. Bosch of Northwestern University. Helpful comments were also received from Marvin Bower of McKinsey & Company, Robert J. Riddle of the Wharton School of Finance and Commerce, Commander L. W. Nuesse, U.S.N., now at University of Tennessee, and Professor W. S. Sayre of City College of New York.

In acknowledging this debt I do not wish to imply that any one of these men agrees with all that is said in this book. They all do share with me the conviction that a grasp of the principles and techniques of administration is vital to every executive who is to perform well his role in our increasingly complex society.

W.H.N.

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ADMINISTRATIVE ACTION

The Techniques of Organization and Management

Chapter 1

ADMINISTRATION—A BASIC SOCIAL TECHNIQUE

Skillful administrators are vital to every dynamic, successful enterprise. Other things such as capital and technical knowledge are also needed, but without competent executives no company can long hold a place of leadership. These men must plan, direct, and control the operations of the business.

The task of directing the cooperative efforts of individuals toward some common objective is as old as civilization. The Bible comments briefly upon the administrative problems of Moses as the leader of the children of Israel. The pyramids have borne witness through the centuries of the administrative, as well as the engineering, skills of the ancient Egyptians. In the church, in the government, in the army, as well as in business enterprises, administration plays a dominant role. To be sure, the specific activities of these various enterprises differ greatly. Yet in each there are problems of organizing, of selecting executives, of establishing plans, of measuring results, and of coordinating and controlling the activities to accomplish agreed-upon ends. It is with these basic processes, which are common to all cooperative effort, that we shall deal.

Administration is the guidance, leadership, and control of the efforts of a group of individuals toward some common goal. Clearly, the good administrator is one who enables the group to achieve its objectives with a minimum expenditure of resources and effort and the least interference with other worth-while activities.

Administration—a distinct skill

Administrators are often men who possess outstanding ability in the particular activity that they are directing. For example, the manager of a baseball club may have been a star player, the production vice-president of a radar company may be an expert electronics engineer, or the merchandise manager of a department store may be a canny buyer of women's gloves. Distinguished performance in such special-

ized jobs probably leads to promotion to broader responsibilities. Such intimate knowledge and first-hand experience with specific operations is of great value to an executive.

Yet, unusual operating skill alone is not enough. There is ample evidence that a star performer on the sales force or at the drafting board does not necessarily make a good executive. On the other hand, a man with only average operating skill may prove to be a very capable manager. This suggests that administrative skill is something different from technical proficiency in the operations being managed.

In fact, this administrative skill is so important that capable executives can move from one post to another and do an outstanding job in each spot. One man, for example, has successfully held positions as sales manager of a cracker company, general manager of a hosiery mill, and president of a chemical concern; and this is no isolated case. Perhaps even clearer evidence that administrative ability is a distinct skill is found in the use of army and navy officers as executives in business firms. These ex-officers usually have no background in their new company or industry, but they do have a basic grasp of the processes of management.

Whenever an administrator is given responsibility for an operation that is new to him, of course he must learn as much as he can about that operation and secure the counsel of men who know it intimately. The man who has *both* personal experience with the operations and administrative skill undoubtedly has a considerable advantage. The point being made here is that management talent and technique are something in addition to, and distinct from, the "substantive" aspects of the work.

One of the striking examples of the possession of administrative ability *per se* occurred during World War II when many top-flight business executives were drawn into government service. The War Production Board, Office of Defense Transportation, Petroleum Administration for War, and many other temporary agencies were staffed primarily by men who had held key posts in private industry. Some of the executives drafted for such work were clearly misfits; they couldn't get things done and they usually left Washington in a state of frustration and disgust.

Many of the other businessmen were highly successful in government work despite the fact that they were operating in an entirely new situation. They were able to size up the total problem, divide it into its parts, assign responsibility to various individuals, establish some

system and rules of operation, and within a relatively short time have their division or branch functioning with a reasonable degree of efficiency. Some of these men were transferred once or twice to entirely separate activities and demonstrated the same ability in each instance. The first group of men were undoubtedly valuable to their respective companies because of technical knowledge or acquaintance with customers, or some other skill related to that particular enterprise. The second group, however, had a knack, a "know-how," or a conscious knowledge of the processes of administration which they were able to transfer from one managerial situation to another.

In the present study we are interested in those skills that this second group of executives were able to focus on entirely new and divergent administrative problems. If we can identify and understand the techniques used by skillful executives such as these, we shall have tools that will be highly valuable to the administrators of the future.

Objectives of this book

This book explores the intangible and vital processes of administration. Its three primary purposes are to:

1. Bring together existing knowledge regarding the *basic processes of administration*. As we shall see, there are many sound ideas already recognized by leaders in business, government, and military administration, but relatively few attempts have been made to summarize these systematically as parts of an integrated whole.

2. State these ideas in a practical and *usable form*. Rather than stop with descriptions and observations regarding administrative processes, effort is made to express the concepts in the form of general guides, or "principles," for executive action. At many points, existing knowledge (and the complexity of administration) will not permit us to go very far with specific recommendations, but such concepts as we do have will be stated in a way that relates them directly to concrete management problems.

3. Add *new ideas* and interpretations. The summarizing and writing down of administrative concepts and the extensive experience that lies behind this book naturally result in some new interpretations and insights.

Implied in these three points is a fourth objective, namely, to give a balanced and integrated view of administration. This is the most difficult task of all. It calls for much judgment, and, since the importance of the several aspects of administration will vary from com-

pany to company, the view presented will be at best an approximation. Moreover, knowledge is more fully developed in some phases of management than in others. Under the circumstances, the most we can do is emphasize time and again the interdependence of administrative processes, and seek a balanced view of existing knowledge of administration.

Basic processes of administration

Administration has been defined as the guidance, leadership and control of the efforts of a group of individuals toward some common goal. This indicates the purpose or function of administration but tells us little about the nature of administrative processes, that is, how the administrator achieves these results. And, unless we can dig into the what and how of administration, it will remain an elusive ability acquired by the fortunate few through inheritance, intuition, or circumstance.

One way to analyze administration is to think in terms of what an administrator does. Using this approach, the work of any administrator can be divided into the following basic processes:

1. *Planning*—that is, determining what shall be done. As used here, planning covers a wide range of decisions, including the clarification of objectives, establishment of policies, mapping of programs and campaigns, determining specific methods and procedures, and fixing day-to-day schedules.

2. *Organizing*—that is, grouping the activities necessary to carry out the plans into administrative units, and defining the relationships among the executives and workers in such units.

3. *Assembling resources*—that is, obtaining for the use of the enterprise the executive personnel, capital, facilities and other things needed to execute the plans.

4. *Directing*—that is, issuing instructions. This includes the vital matter of indicating plans to those who are responsible for carrying them out, and also the day-to-day personal relationship between the "boss" and his subordinates.

5. *Controlling*—that is, seeing that operating results conform as nearly as possible to the plans. This involves the establishment of standards, motivation of people to achieve these standards, comparison of actual results against the standard, and necessary corrective action when performance deviates from the plan.

There is a sixth group of activities which takes more or less of the time of every administrator, namely, performing nondelegated activities. For instance, the sales manager may call on customers, or the production manager may spend some time in the designing of a new product. Even the administrators of very large enterprises are not able to delegate all actual performance to subordinates.

Important among nondelegated duties are the external contacts that the chief executive of a large enterprise must make personally; it is incumbent upon him to meet important customers, deal with union officials, appear before Congressional committees, or take part in certain civic activities. In fact, a detailed analysis of how two top-flight executives actually spent their time revealed that one spent over a third of his working hours on such outside contacts, while the other spent approximately 20 per cent of his time in this manner.

Strictly speaking, the performance of nondelegated duties is not part of administration and the activities involved are of almost infinite variety, depending upon the local situation and the particular interest and capacity of the executive concerned. Consequently, in this study we will do no more than recognize that nondelegated activities do limit the time an executive has to spend on administrative duties.

While all administrators engage in the five basic processes just listed, it will be clear that the proportion of time they spend on each will vary from time to time and from one executive to another. For example, in day-to-day operations, especially at lower administrative levels, organizing and securing resources may receive very little attention and the executive will spend his time planning, directing, controlling, and performing nondelegated duties. On the other hand, certain executives who have one or two principal assistants to whom they delegate most of the operating responsibilities may spend the bulk of their time in planning. Nevertheless, the five processes are sufficiently universal in application, basic in nature, and comprehensive in scope to provide a useful framework for our analysis of administration.

Relation of basic processes to other divisions of business

Administration cannot possibly take place all by itself; it is inextricably tied to actual operations.

Relation to business "functions." The work of executives may be divided into subject fields, such as sales, production, or finance. It may also be divided into administrative processes; for example, planning,

directing, and controlling. These are simply two different approaches to the same body of activities, as is shown in Figure 1. The sales manager must plan, organize, assemble resources, direct, and control, just as any other executive. Administration, then, is not another of the so-called "functions" of business. It is a necessary part of the work found in any and all of the subject groups.

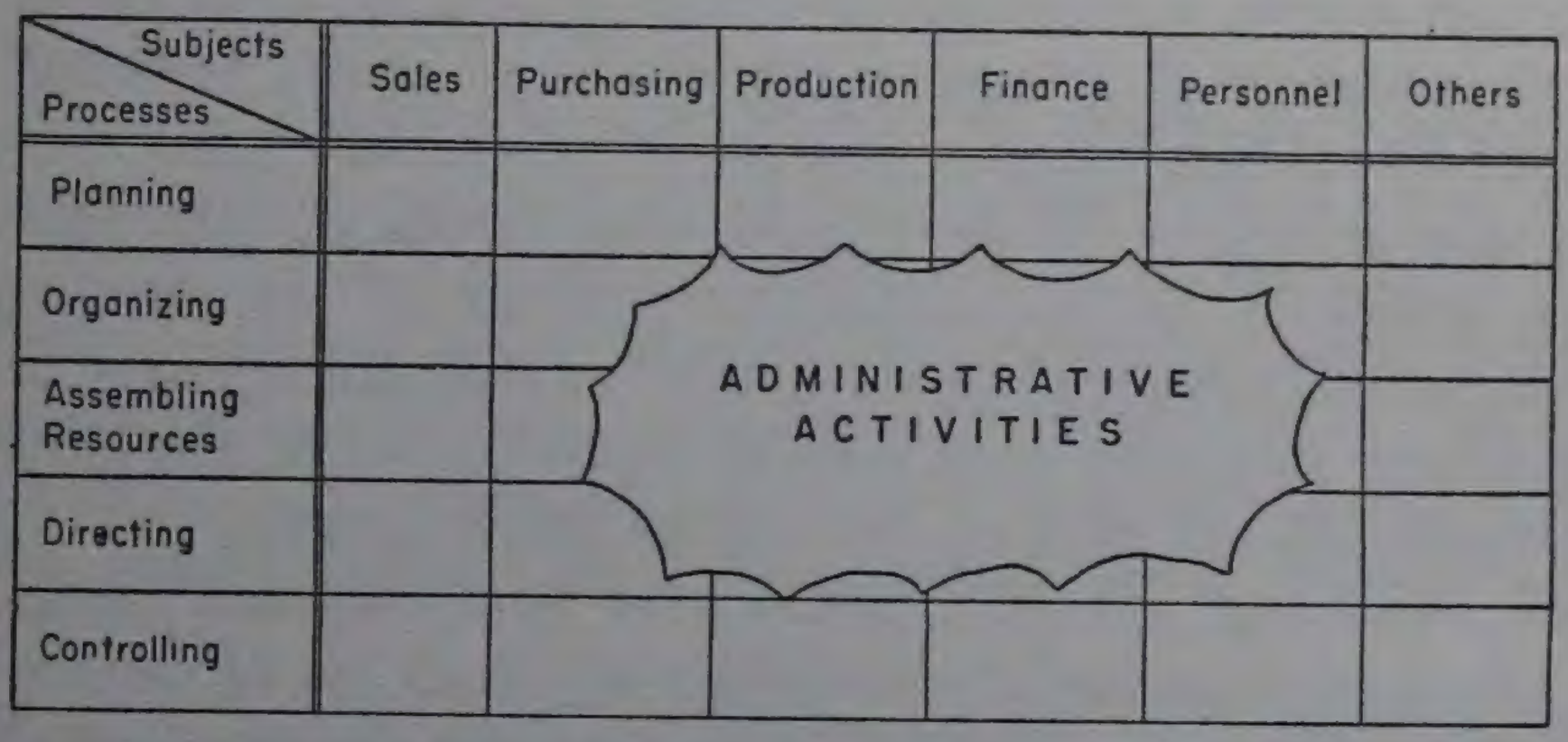

FIGURE 1. Two Different Ways of Analyzing the Work of a Business Administrator.

Most of the discussion of administration in the past has concentrated on some one subject-field. Emphasis has been on current issues in the particular field (union recognition, resale price maintenance, depreciation rates, and the like), with only secondary consideration of administrative processes. In this book, the emphasis is reversed. Major attention will be on the underlying problems faced by executives in any field, and the more specific issues will be of interest only as illustrations of the basic processes.

There is, of course, a top-management level in every enterprise that is concerned with over-all administration rather than with a single field. Some of the problems at this level are distinctive, as will be noted especially in Chapter 14. Generally, however, the nature of administration is similar at all executive levels, and in this study no sharp line will be attempted between top, near top, and not so near top management. The words administrator, manager, and executive will be used interchangeably, and, except when narrowed by context, will apply to any executive from a first-line supervisor to the chief operating official.[1] Here, again, we are primarily interested in the basic management skills that every executive should possess.

[1] Some writers separate the work of top administration from that of subordinates. Unfortunately, there is no agreement on whether the top level should be called

"*Human relations.*" Throughout this book the theme of human relations will recur. Plans are made to guide human activity, and they should be formulated in light of their effects on many people. Organization deals with jobs for people and the established relationships between these jobs. Assembling executive personnel is 100 per cent human relations. Direction is concerned with the way one person gives instructions to others. Control is effective only if human behavior conforms to plans. In other words, human relations is not a separate issue, but an ever-present one.

Our viewpoint here is that of a manager; we are concerned with his tasks and what he can do about them. Consequently, it will be most useful to tie human relations to each of these tasks as we go along rather than discuss it separately. This is more than a convenience in writing; it is what the executive in fact does. He thinks of the human, economic, technological, and legal aspect of each problem as part of the operating situation in which he must work. The absence of separate chapters on human relations, then, in no way denies its importance. Instead, it reflects a deliberate plan to include human relations as an integral part of each administrative process.

The development of principles of administration

Although administration has been essential in public, private, and eleemosynary enterprises for centuries, written discussion of the basic techniques used prior to 1900 are very few and far between.

Before the twentieth century, training of an administrator typically consisted of informal apprenticeship in a single enterprise. The young man, perhaps fourteen years old, was put to work without much thought of training beyond instruction in his immediate task. A general attitude of secrecy and high regard for tradition prevailed. Any discussion of one's own problems with men in other companies who faced similar difficulties was usually looked upon as a breach of confidence. If useful innovations were made, knowledge of these spread slowly.

During the last fifty years, however, there has been a remarkable shift in attitude. Techniques of management are now freely discussed by associations of business men and in professional schools. The volume of written material, usually descriptive in nature, is staggering. In this new development there have been several, somewhat inde-

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management or administration or on what is covered by the term selected. In the present study, a distinction between administration and management serves no practical purpose.

pendent, currents of thought that have strongly influenced our present ideas about administration.

Scientific management, personnel administration, accounting and budgeting, and military administration have all made major contributions. In addition, many other groups or schools of thought are concerned with administration. The public administrators, office managers, social anthropologists, purchasing agents—these and literally thousands of other organizations all deal to some extent with administrative problems.

Although there is now much talk about administration, two observations are pertinent here. First, most of these groups are interested in only some limited area of activity and quite naturally they confine their attention to related subjects. Even those groups that broaden their scope to embrace administration generally are inclined to emphasize some one aspect, such as the budgeting process, a technique for analyzing managerial situations, or the treatment of people as individual personalities. There is a tendency for each group to think it has the best—perhaps the only—road to salvation. For purposes of this study of the basic processes of administration, we shall have to draw ideas from many sources.

Second, many of the ideas with which we shall deal are new, or not more than a generation old. Here, as in other fields, our knowledge of social relations lags far behind our understanding of the physical environment. It is not surprising, then, that there are gaps in the information we possess, inconsistencies in other places, and frequently hypotheses not substantiated by demonstrated facts. Nevertheless, the body of knowledge we do have is large enough so that the executive who has it at his command will be much more effective in his work.

Summary

Administration is the guidance, leadership and control of the efforts of a group of individuals toward some common goal. It is a very important and widespread activity, being essential to united human effort—in government, military, charitable, and business enterprises.

Skill as an administrator is quite different from ability to perform the work being directed. For this reason, successful executives are able to move from one job to another even though they have had no

personal experience in the detailed operations involved. It is this distinct administrative skill that is discussed in this book.

Administrative skill involves mastery of five basic processes: (1) planning, (2) organizing, (3) assembling resources, (4) directing, and (5) controlling. These processes are present to a greater or lesser extent in all executive jobs, that is, in jobs at different levels and in various fields. The subject matter will vary, but the underlying processes will be similar. Because of their fundamental character, a part of this book will be devoted to each of the five processes.

Information and ideas regarding sound administrative practice come from a variety of sources. Scientific management, personnel management, accounting, public administration, military administration, psychology and sociology, industrial engineering, and other disciplines all have made contributions. Although this knowledge is still scattered and incomplete, there does exist a body of ideas that can be highly valuable to every executive.

It is the purpose of the succeeding chapters in this book to: (1) bring together existing knowledge regarding the basic processes of administration, and summarize this in a systematic and integrated manner; (2) state these ideas in a practical and usable form; and (3) add new ideas and interpretations.

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Part I

PLANNING

Chapter 2. Goals: The Guideposts in Administration
Chapter 3. Single-Use and Standing Plans
Chapter 4. The Limits of Planning
Chapter 5. Patterns of Planning in an Enterprise
Chapter 6. The Process of Planning
Chapter 7. Special Considerations in Planning

Chapter 2

GOALS–THE GUIDEPOSTS IN ADMINISTRATION

Questions the administrator wants answered

Planning is a familiar, everyday activity. The results of planning, or the absence of it, may be seen all about us. For example, the writer recently had occasion to employ both a plumber and a paperhanger. The plumber started vigorously on his work but soon discovered that he needed a special wrench that, unfortunately, was back at the shop. After the old piping was torn out, he made some measurements and again returned to the shop to get the new pipe necessary. Most of the pipe he was able to cut and fit with the equipment he had brought along, but one place called for a special joint which he returned to the shop a third time to obtain. And so the job continued. The man worked industriously, but his output per hour was low because he had not sized up the total situation, anticipated the difficulties, and prepared to meet them before he commenced tearing things apart.

In contrast, the paperhanger got a slow start. He measured and estimated, he discussed colors, he considered furniture that had to be moved and special ladders that would be necessary to reach the ceiling over the stairwell. When he did get started, however, he proceeded without interruption. The materials he needed were at hand in the right quantity, and he had the necessary equipment. There was no question as to what was to be done, neither were there unanticipated emergencies.

The difference in output between the two workmen was striking, and it resulted not so much from a difference in the effort that the two men put forth or in their skill in actually performing the work itself. Instead, the difference clearly was that the paperhanger did a good job of planning ahead, whereas the plumber thought only of the next step.

Theodore Roosevelt has recorded his experience when, as a colonel in the Spanish-American War, he was attempting to get his division transported from Port Tampa to Cuba. When he and his men finally

reached the port, they found the quay swarming with some ten thousand men in considerable confusion as to who was to take what transport. After considerable search, he located the quartermaster and was allotted space on the *Yucatan*. By accident he discovered that the *Yucatan* had also been allotted to two other divisions, and it clearly was not large enough to carry the total. Consequently, in order to pre-empt the space one of his fellow officers jumped into a small boat and met the *Yucatan* before it docked. In the meantime, Roosevelt established a guard at the dock and would not permit men of the other divisions to board the boat until after all his men were on ship. Part of a second division was able to board, but the third spent the next two nights on a train waiting for a transport. Contrast the confusion typified in this account with the precision of action in the invasion of Normandy during World War II, and the difference between poor planning and good planning is again apparent.

The desirability of planning is now widely recognized, so much so that it is almost a fad to talk about planning, even though the advocate may have only vague ideas of what is really needed and how to go about it. Thus, the Scout leader is urged to plan his meeting carefully so that he may move with dispatch from one activity to the other without a loss of attention. The followers of Frederick Taylor urge planning in considerable detail as an essential step to production operations. Any self-respecting municipal government now engages in some form of city planning. And on the national level, the need for a National Resources Planning Board is generally accepted. There is not, however, 100 per cent support for the "planners," and rightly so, because much that flies under the banner of planning is vague and visionary.

The effective administrator, then, must ask himself a series of practical questions:

1. What is really meant by planning and how does it relate to other phases of administration?
2. What are the different kinds of plans that may be useful and what are the advantages of each?
3. What are the practical limits on the extent and detail to which planning should be carried?
4. What basic steps are necessary to the development of a plan?
5. Are there special considerations that need to be observed for effective planning?

The discussion in this and the next five chapters will be organized around these key questions.

Nature of Planning

Working definition of planning

Speaking generally, planning is deciding in advance what is to be done; that is, a plan is a projected course of action. Considered in this light, planning is a very widespread human behavior: the entrepreneur plans a new enterprise, a marketing vice-president plans a sales campaign, the lawyer plans the presentation of his case, the social worker plans relief for an unemployed man, the housewife plans lunch, the carpenter plans the repair of a screen door.

Planning in a business enterprise normally involves at least the following steps:

1. *Recognition of the need for action.* This may arise through an assignment from the boss, or, in military lingo, the statement of a mission; an accounting report may show that costs are out of line or that production is lagging behind schedule; the executive may get a new idea at a professional meeting; there may be a normal seasonal upswing in sales; or the medical department may report that the foreman needs an operation. For any of a variety of reasons, it is recognized that matters cannot be permitted to simply drift with a "do nothing" attitude. Some kind of action is called for.

2. *Investigation and analysis.* Here the facts of the present situation are studied so that possible alternatives may be identified, and information is gathered as to the benefits and the difficulties in applying them.

3. *Proposal for action.* On the basis of the investigation, the executive develops one or more proposed courses of action; he "initiates" a plan.

4. *Decision.* A plan does not really exist until a clear decision is made as to a course of action.[1] Not infrequently two or more levels of organization are involved in the final decision. Thus, some operating executive may really decide or select the action to be taken, but before he can proceed he must secure the approval of his superior—sales manager, production manager, president, or perhaps the board of directors. When this is necessary there are really two steps, namely, tentative decisions and final approval.

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[1] Executives make many decisions that are not plans. For instance, an executive may decide that Zip Zilch is honest, that wholesale prices probably will rise in the year, that existing wage data is an adequate sample of the market, et cetera. Such judgments as these are often necessary in arriving at plans, but they are not plans because they do not stipulate action to be taken.

From what has been said, it should be clear that planning is not something like purchasing or warehousing that can be delegated to a separate department, thereby relieving other divisions of any concern with it. To be sure, an administrator may have people helping him with certain phases of planning, notably the investigation and analysis stage, but the decision aspects of planning are inevitably and intimately tied in with the other activities of operating officials who are in the "chain of command."

Relation of planning to other phases of administration

Once the plan is adopted, that is, the decision has been made and approved, the administrator is free to move into other phases of his operation. Perhaps the plan calls for modification in existing organization, or the assembly of additional resources. If so, the executive must give attention to these. He then proceeds to issue instructions for the execution of the plan and, finally, checks up to see whether any corrective action is necessary to secure fulfillment of the plan. This last control step provides information that may lead to a modification or the adoption of new plans, which in turn starts a new cycle of planning, direction, and control. (See Figure 2.)

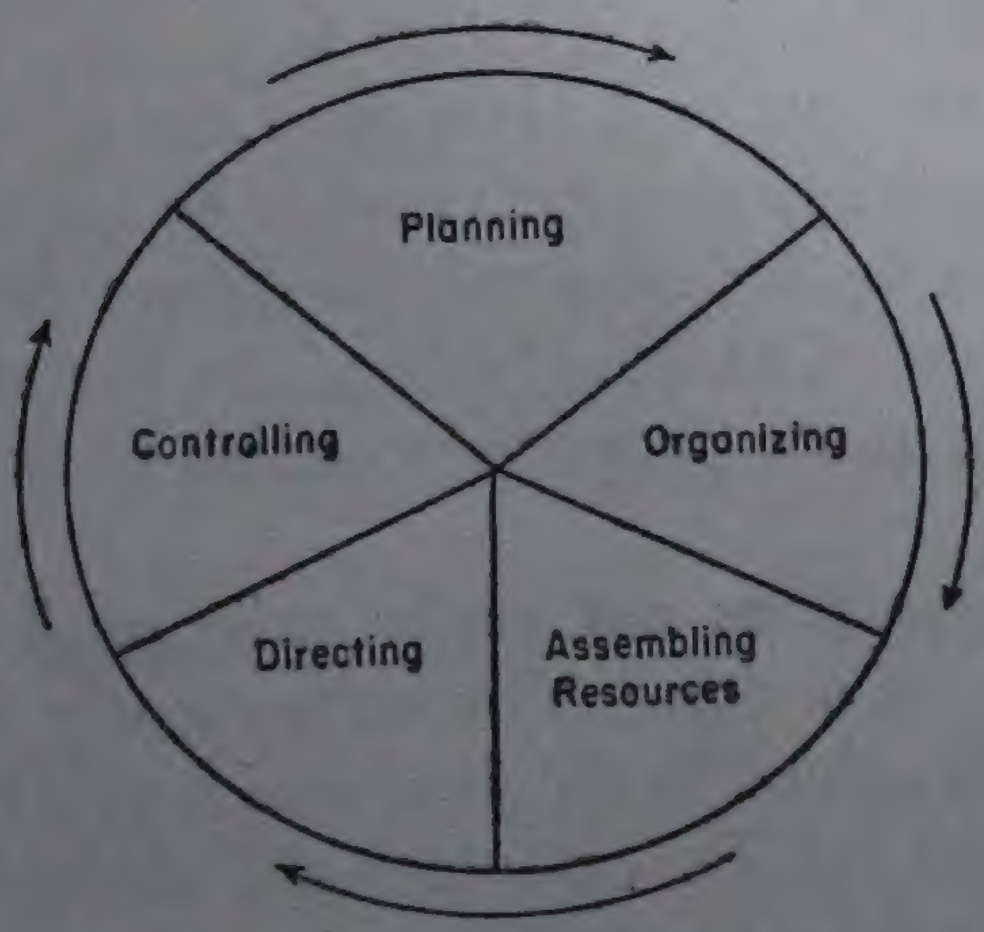

FIGURE 2. Cycle of Administrative Duties. The proportion of time an administrator spends on each duty will vary widely; under some circumstances organizing and assembling resources may drop out entirely.

In actual operation, the administrative cycles are, of course, no more regular than the so-called business cycle. A merchant, for example, may lay out a program for all phases of his business, or he may decide to buy a given lot of clothing and put this part of his program into

operation before he has planned the sales promotion to dispose of those articles. The demand for the products may be so active that before he has sold all his stock he decides to reorder. Perhaps competitors' action is such that he must step up or enlarge his sales-promotion campaign, cut his price, or even attempt to cancel part of the goods he has already ordered. In these situations what he does is to modify his original plan, issue a new set of directions, and then check up to see how the revised program is carrying out.

The period of time covered by the plan and the frequency of change differ greatly, for instance, with a mail-order house whose catalogue commits the enterprise for a period of several months and the small corner haberdashery that operates on a minimum of stock and virtually no price commitment. Nevertheless, in each case there is planning, direction, and control.

In some situations the administrative process takes place in fairly clear, separable steps. Thus, the engineering design and specifications of a building may be completed before the organization and schedule for actually erecting it are laid out; then arrangements are made for money, materials, and men needed at various stages in the future; direction to actually begin construction work may not be given until all the foregoing preparations have been completed; finally, the task of checking and controlling is undertaken.

Such a sharp separation of steps is more the exception than the rule, however. Even in construction operations, work on foundations may be started before detailed specifications for office space are completed, and delays in material deliveries or unseasonable weather may necessitate a revision of schedule. In fact, detailed schedules for wiring and for painting may not be prepared at all until the project is well underway. Thus, the planning, organizing, assembling of resources, directing, and controlling are all going on at the same time. In other types of business where operating conditions are even less predictable, or activities more diversified, there is even greater intermingling of planning with other phases of administration. This intermingling may modify the extent of planning, but it does not change its nature or its importance.

Although the mail-order house, the corner haberdashery, the building-construction company, and the cigarette manufacturer all must plan, it is also evident that the types of plan that these companies employ differ greatly. Each administrator must decide what kinds of plans are practical for him to use. Should he limit his planning to

his day-to-day activities, or should he attempt annual planning? How can he use policies to advantage; what use may be made of standard methods and procedures? Real administrative skill is required in answering such questions as these.

Types of administrative plans

Planning is a broad concept; it embraces a wide range of ideas. In fact, much of the confusion concerning planning arises because people use the same words to cover quite different concepts. It will be helpful, then, to have a clear understanding of the different kinds of plans that an administrator may use.

Plans may be divided into three broad groups:

1. Goals
2. Single-use Plans
3. Standing Plans

Within each of these groups there is quite a variety of plans, ranging from the broadest type of plans covering the operations of the entire enterprise for a considerable period down to detailed plans for the activities of a single individual on one day.

An executive responsible for planning should recognize clearly all the different types of plans he has at his disposal. For this purpose, the nature and advantages of goals and single-use and standing plans will be considered in this and the following chapter. The limitations on planning will then be discussed in Chapter 4. The main issue running through these chapters is, "What kind and how much planning is practical?"

The best way to develop sound plans is a different issue. This is a matter of planning technique, and it is examined in the last two chapters of this section, following the discussion of types of plans.

Goals and Their Advantages

Sound administration starts with a statement, or at least a clear recognition, of goals to be achieved. Each executive, from the president to the first-line supervisor, should know the aims of his particular activities.

For this purpose, it is useful to express plans in terms of the results to be accomplished. The production manager, for instance, may say that he plans to increase output 20 per cent; the personnel manager plans to increase the proportion of women employees; or the controller

plans to issue a readable annual report by February 15. Plans expressed as results to be achieved may be called *goals*. Used in this broad sense, goals would include such things as objectives, purposes, missions, deadlines, standards, targets, and quotas.

Goals serve a dual purpose in administration. They are vital links in the planning process, and they are also essential elements in the process of control. Since in this section we are primarily interested in goals as a type of planning, discussion of their function in control will be postponed until Chapter 23.

Objectives

Significance of broad objectives. Every enterprise needs a clear statement of its objectives as a basis for all of its planning. It is quite plain, for example, that a nursery school must decide whether its primary objective is education or supervised play before it can lay out its program, select equipment, hire teachers, and begin to operate in anything other than a haphazard manner.

Likewise, anyone entering a new field, such as frozen foods, must decide the extent to which he wishes to achieve nation-wide distribution of a branded product, initiative and leadership in technological development, or economies in production through the manufacture of large quantities to be sold through diverse channels of distribution. Choice among these objectives will affect much of the planning on more specific matters.

The importance of objectives in planning is borne out by Gulick's observation, based on extensive experience in a wide variety of governmental operations:

> *A clear statement of purpose universally understood is the outstanding guarantee of effective administration.*
> Translated to military terms, this is "The mission must be defined . . ." This rule applies not only to the great purposes of national action, but to each specific activity as well. . . . On this point, military administration taught us a real lesson. With minor exception, no activity was initiated by the military without clear definition, a definition cast in terms of purpose, timing and resources; no organization unit was set up without a statement of its mission. . . . In administration, God helps those administrators who have a clearly defined mission. . . .[2]

Balancing importance of different objectives. Not infrequently, an enterprise may have several different objectives, and one of the tasks

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[2] L. Gulick, *Administrative Reflections from World War II*, University of Alabama Press, 1948, pages 77-78.

of the administrator is to bring a balance in the extent to which these various objectives are stressed. For example, a college may have several objectives, among them the imparting of facts and attitudes (transmission of culture), the development of creative ability, training for citizenship, training in problem-solving and application of principles to concrete situations, and the cultivation of esthetic appreciation of art, literature, and music. The student who has selected his school and the college official who wrestles with curriculum recognize that not all of these objectives can be dominant in a single institution, although each may receive some attention.

The business administrator also must seek a balance between objectives. In addition to dividends for stockholders, he is concerned with stable employment and satisfactory working arrangements for employees, with reliable service to customers, and with the relation of the enterprise to the general public. Thus we find Chairman Frank Abrams telling an annual meeting of stockholders of Standard Oil Company (New Jersey):

> We have become one of the great industrial organizations of the world. With our size have grown our responsibilities as corporate citizens at home and as representatives of American business and American ideals and ability abroad. We accept these responsibilities with a deep consciousness of their significance. We are making every effort to conduct our business in an open, respectable manner, guided not only by business and other economic considerations but by the requirement to be good citizens at home and abroad.[8]

The five major objectives of Johnson & Johnson, manufacturer of surgical dressings and related products, are epitomized in its "Credo," shown in Figure 3. A somewhat similar, though much briefer, statement has been prepared by the American Brake Shoe Company, as follows:

OUR AIM

Our ambition is to make our Company—
A better place to work.
A better neighbor in our communities.
A better company to sell to.
A better company to buy from.
A better company to invest in.
Each of us can help in some way every day.

These objectives must, of course, be translated into concrete plans to guide specific operations. Policies, programs, procedures, or other plans are often a direct outgrowth of the explicit recognition of such

[8] Stenographic Report of 1948 Annual Meeting, page 21.

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Our Credo

WE BELIEVE THAT OUR FIRST RESPONSIBILITY IS TO OUR CUSTOMERS
OUR PRODUCTS MUST ALWAYS BE GOOD, AND
WE MUST STRIVE TO MAKE THEM BETTER AT LOWER COSTS
OUR ORDERS MUST BE PROMPTLY AND ACCURATELY FILLED
OUR DEALERS MUST MAKE A FAIR PROFIT

OUR SECOND RESPONSIBILITY IS TO THOSE WHO WORK WITH US —
THE MEN AND WOMEN IN OUR FACTORIES AND OFFICES
THEY MUST HAVE A SENSE OF SECURITY IN THEIR JOBS
WAGES MUST BE FAIR AND ADEQUATE.
MANAGEMENT JUST, HOURS SHORT, AND WORKING CONDITIONS CLEAN AND ORDERLY.
WORKERS SHOULD HAVE AN ORGANIZED SYSTEM FOR SUGGESTIONS AND COMPLAINTS
FOREMEN AND DEPARTMENT HEADS MUST BE QUALIFIED AND FAIR MINDED
THERE MUST BE OPPORTUNITY FOR ADVANCEMENT — FOR THOSE QUALIFIED
AND EACH PERSON MUST BE CONSIDERED AN INDIVIDUAL
STANDING ON HIS OWN DIGNITY AND MERIT

OUR THIRD RESPONSIBILITY IS TO OUR MANAGEMENT
OUR EXECUTIVES MUST BE PERSONS OF TALENT, EDUCATION, EXPERIENCE AND ABILITY.
THEY MUST BE PERSONS OF COMMON SENSE AND FULL UNDERSTANDING

OUR FOURTH RESPONSIBILITY IS TO THE COMMUNITIES IN WHICH WE LIVE
WE MUST BE A GOOD CITIZEN — SUPPORT GOOD WORKS AND CHARITY
AND BEAR OUR FAIR SHARE OF TAXES
WE MUST MAINTAIN IN GOOD ORDER THE PROPERTY WE ARE PRIVILEGED TO USE.
WE MUST PARTICIPATE IN PROMOTION OF CIVIC IMPROVEMENT.
HEALTH, EDUCATION AND GOOD GOVERNMENT,
AND ACQUAINT THE COMMUNITY WITH OUR ACTIVITIES

OUR FIFTH AND LAST RESPONSIBILITY IS TO OUR STOCKHOLDERS
BUSINESS MUST MAKE A SOUND PROFIT
RESERVES MUST BE CREATED. RESEARCH MUST BE CARRIED ON
ADVENTUROUS PROGRAMS DEVELOPED, AND MISTAKES MADE AND PAID FOR
BAD TIMES MUST BE PROVIDED FOR, HIGH TAXES PAID. NEW MACHINES PURCHASED,
NEW FACTORIES BUILT, NEW PRODUCTS LAUNCHED, AND NEW SALES PLANS DEVELOPED
WE MUST EXPERIMENT WITH NEW IDEAS
WHEN THESE THINGS HAVE BEEN DONE THE STOCKHOLDER SHOULD RECEIVE A FAIR RETURN.
WE ARE DETERMINED WITH THE HELP OF GOD'S GRACE,
TO FULFILL THESE OBLIGATIONS TO THE BEST OF OUR ABILITY.

Johnson & Johnson

FIGURE 3. Objectives of Johnson & Johnson.

objectives, and in any event the plans should be consistent with these broad objectives. In this adapting of operating plans to objectives the relative importance of each objective must be considered. More precisely, the contribution an additional expenditure of effort or money will make toward one objective must be balanced against the contribution that expenditure might make toward another objective. This calls for considerable foresight and a fine sense of values.

Objectives for each department and division. Good planning requires recognition of objectives for the several administrative divisions of an enterprise, as well as for the enterprise as a whole. Thus, the objective or mission of the printing department with respect to cost and to service should be clear to the manager of the department and to those responsible for general supervision over it. Likewise, the objective of the advertising department in securing direct orders, as contrasted with its objective in promoting wide acquaintanceship with the company's brand name, should be understood.

When the manufacturer of a well-known line of radio sets decided to enter the industrial phase of the electronics business, the manager of the new department needed to know whether he was expected to duplicate R.C.A.'s entire line of broadcasting, transmitting, and industrial communication equipment within, say, the next three years.

It is, of course, easier to define the missions of some departments than that of others; for example, the warehouse department as compared with the public relations department. But, in every case a clear definition of purpose is of great assistance in administration.

Budgets and deadlines

Budgets. A budget expresses in numerical terms, typically financial accounts, the anticipated results of operations in some future period. If budgets are well prepared they will be more than mere predictions; instead they will reflect the actual plans for each of the activities covered. Once prepared, they constitute a goal toward which activities are directed. They have a number of distinctive merits as planning devices, notably the specificness with which the goal must be expressed, the ease with which plans of one department may be coordinated with those of another department, and their ready adaptability as control standards. Budgets are such an important managerial device that an entire chapter will be devoted to them later. They are mentioned here so that they will be recognized as an important form that planned goals may take.

Time goals. Timing of activities is an essential element in administrative planning. One way to incorporate the "when" into a plan is to set up a deadline, or a series of deadlines when certain events should be completed. These deadlines take many forms. The newspaper has deadlines for each edition; the engineering department may establish a date when new equipment is to be installed and ready to operate; the sales department may have a rule that all incoming inquiries are to be answered within two days of receipt of the letter; or the salesman may set a goal for himself of calling on at least five individuals on his new-prospect list each week.

When detailed planning is undertaken, there may be a whole series of these deadlines. These should be related to each other so that preliminary steps are completed before succeeding steps must start, and all of the steps must be geared into the major or controlling date for the entire operation. An illustration of this type of planning is given in Figure 4, which shows some of the time goals set up for a construction project.

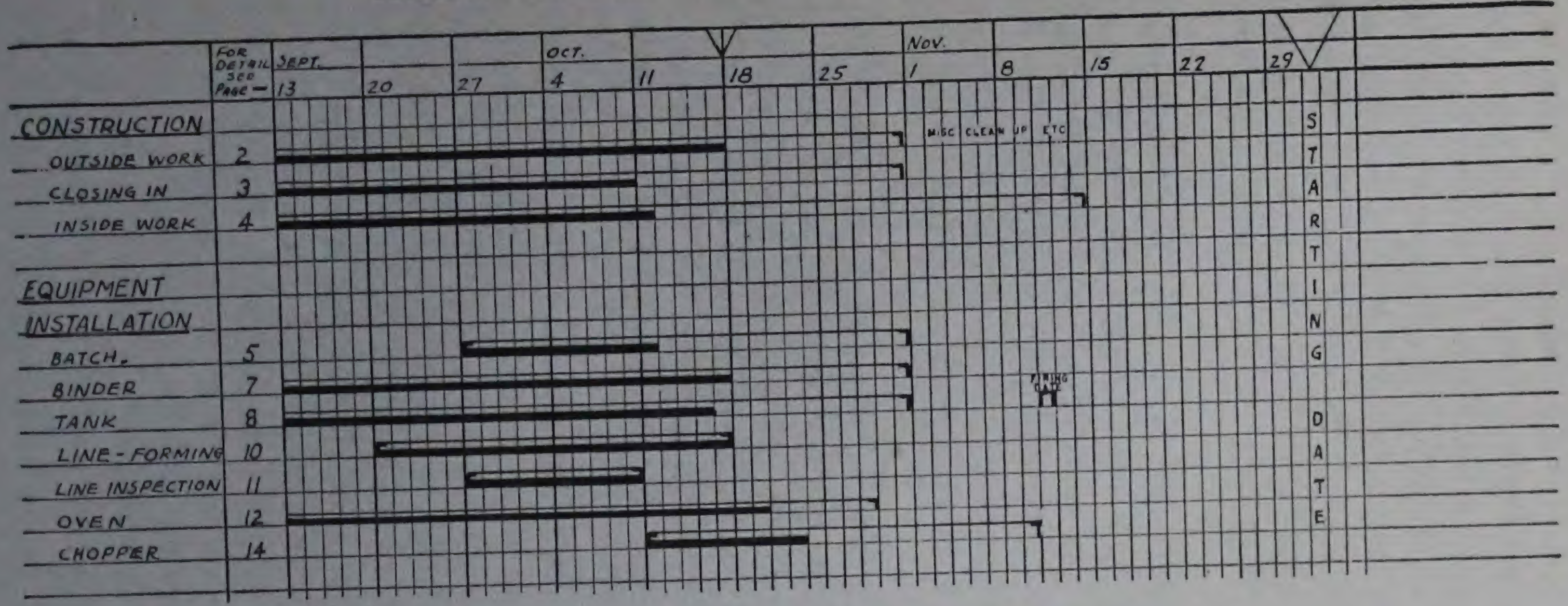
Allowances for delays. In the setting of all types of goals, including time goals, there is always a question of how optimistic to be. As far as administration is concerned, there is no value in setting goals that are visionary, that is, desirable end results the achievement of which is quite unrealistic. Dreaming of Utopia has its place, but the administrative planner had better concentrate his attention on that part of the road which is nearer at hand.

Even within realistic levels there is still a question of whether the goals should be the best that can be expected, or should include a liberal allowance for normal interruptions and other difficulty. Clearly, if the time goal, the output standards, or the sales quota is to be used in forming other plans, some allowance must be included for typical operating difficulties. On the other hand, if the goal is to serve as an effective stimulant to human behavior, a standard that is too easy to accomplish may fail to bring forth the best efforts. A British writer advises that "Targets should be difficult but not impossible. They should allow for the occasional let-up such as may be natural around the holidays."[4] Wallace, Clark & Company, a firm that has given special attention to the timing of administrative plans, recommends:

> ...In timing the plan, it should be assumed that everyone will use his best efforts and that good conditions will obtain throughout the period. These high standards of performance, when used as a basis for judging actual progress,

[4] W. Puckey, *What Is This Management?*, Chapman and Hall, 1944, page 241.

SUMMARY SCHEDULE CONSTRUCTION AND EQUIPMENT INSTALLATION



DETAIL SCHEDULE: CONSTRUCTION—OUTSIDE

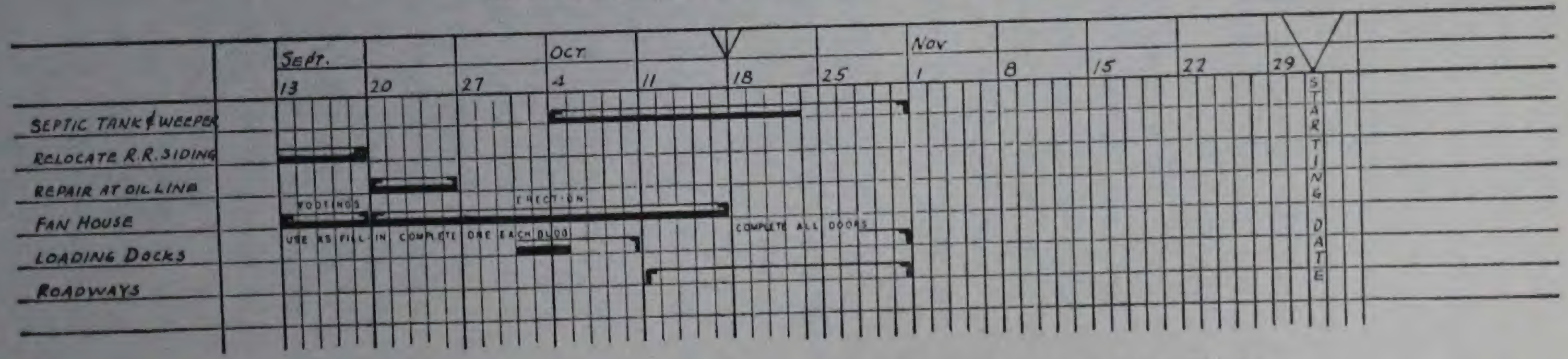


FIGURE 4. Gantt Chart Showing Time Goals for a Construction Project.

Explanation of symbols: ⌜ is date job should start; ⌝ is date job should be finished; ⌜⌝ is total time scheduled for job; heavy line —— shows actual work completed as of date marked V on top line. Source: Henry A. Martin, "Preproduction Planning for a New Plant," *Mechanical Engineering*, July, 1949, page 570.

bring to light weaknesses and tendencies which would not appear if the standards were easy to attain. . . . There should be no cushions of time in the various elements of a program, because the sub-executives charged with execution will lose faith in the plan and think it is not really important for each of them to meet his time objectives . . . all allowances should be bunched at the end.[5]

The margin of safety included in any goal will depend, of course, upon the use to which the goal is to be put. In general, it appears to be wise to set up a reasonable yet difficult objective for each segment of the operation. Then if it is desirable to make allowance for unforeseen contingencies, this can be added as a separate and clearly designated allowance.

Operating goals

A wide variety of operating standards may be set up that express the anticipated results of the more detailed plans. There probably will be expense standards; material costs being set at, say, 30 per cent of cost of goods sold, overhead at 160 per cent of direct labor, or office payroll at $1500 per month. Also there may be a variety of output standards expressed in physical terms; for example, three generators finished per week, thirty pieces per machine per hour, ten new prospects located per day. Other operating standards might deal with lost time due to accidents or the training of a substitute for every key position in the organization.

The executive who can say, with an assurance based on detailed planning, that he plans to produce X number of products during the next month with a total of A people on the payroll and a salary expense of B, that material used should be C pounds, that the rate of spoilage will be D, and similarly states the results he plans to achieve in other phases of his operations, is well on the road to success as an administrator of his department.[6]

Hierarchy of plans

The preceding discussion has already suggested that the plans for a given enterprise should fall into a hierarchy; that is, as the decisions are pushed through successive steps to cover narrower and more-detailed operations, there should be a clear recognition that one step is subordinate to the other. In other words, a general objective or major decision is accompanied by a whole series of successively more-

[5] *Executive Planning*, pages 6 and 7.

[6] See B. E. Goetz, *Managerial Planning and Control*, McGraw-Hill Book Co., 1949, chapter 5, for further discussion of operating goals.

detailed plans, each designed to implement the general plan of which it is a part.

As an illustration of a hierarchy of plans, consider the issues arising in connection with "The Voice of America" radio program which the United States beamed to European countries following World War II. The underlying question for Congress and the State Department was, of course, whether the United States should be concerned, at least at that time, with the political beliefs of foreign nationals. Given a positive answer to this issue, plans for influencing these beliefs had to be adopted–including the role radio was to play. Then, engineering plans regarding location, power, wave lengths, and similar matters had to be determined. At the same time the types of programs had to be settled; for example, news versus jazz music or other representations of American culture. Then, specific methods for station operators were needed, and before anything went "on the air" a time schedule down to the fraction of a minute and a script specifying virtually every word had to be adopted. Here the planning ranged from foreign policy to changing needles on the phonograph-record player.

The idea of an order or a rank as between plans has been generally recognized by large, multi-unit enterprises and by governmental planners, particularly in socialistic countries, such as England. Because of the impracticabilty of attempting detailed planning at a central point, such enterprises develop a master plan and then allow the subordinate units considerable freedom of operation within those limits. In smaller establishments, organizational necessity may not force as sharp a distinction in the levels of planning, but as a device for orderly thinking it is just as applicable.

We see then that the concept of hierarchies in plans is important, both to assure internal consistency and integration of the plans themselves, and also in the process of organization as an aid to successful decentralization.

Relationship of goals to other types of plans

As already indicated by definition and by illustration, goals cannot be set up without regard to single-use and standing plans. Instead they are an inseparable part of the whole planning process. The general objectives or missions give rise to a program, each part of which has some contribution to make to the achievement of the broad objectives. These parts may be expressed as subgoals, and then a whole series of

plans are developed to achieve them. These more detailed plans may be translated into a budget and a master schedule developed. The master schedule, in turn, may provide the deadlines that guide the detailed scheduling in individual departments. Likewise, the budgeted expenses for a given department should be correlated with output standards that are based on the specific methods and procedures planned for the individual operations.

This idea of goals and subgoals supported by a program and standing plans all neatly dovetailed together and contributing toward the overall objective is not an easy thing to put into practice. In some instances, notably government operations, an enterprise may be trying to achieve several objectives simultaneously, and if steps toward these objectives conflict, it is necessary to decide which receives priority. Likewise, ethical concepts of desirable social behavior modify the unquestioned acceptance by all members of an enterprise of a single objective.[1] This complicates the planning process (often to the point where the individual behavior is not fully consistent), but does not change the essential need for goals and subsidiary goals in rational planning.

Contributions of goals to the planning process

But why bother, a practical-minded executive may ask, to translate operating plans into anticipated results when those goals are already implied in the plans themselves? Among the benefits of expressing plans in terms of goals are the following:

1. Purposeful and integrated planning is made easier. The formulating and crystallizing of goals serves as a beacon light in directing the subsequent planning. Thus, when planning from a general objective to a specific operation, the major goal provides the mission toward which the subsidiary goals are directed; these subsidiary plans in turn provide objectives toward which the more detailed plans are directed, and so on until a hierarchy of goals is established. Without such relationships of major goals to minor goals, integrated planning is not possible.

2. Diverging and unproductive work is more likely to be avoided. The stressing of objectives, missions, and standards helps the executive or the operator to "keep his eye on the ball." There is a natural tendency for anyone heavily engrossed in some one activity to attach great importance to the work itself without considering it from the

[1] See H. A. Simon, *Administrative Behavior*, The Macmillan Company, 1947.

viewpoint of some broader purpose. Planning in terms of goals contributes to the constant vigilance that is necessary to keep the enterprise pruned of unproductive or overgrown branches.

3. Operating goals or "standards" can be used as building blocks in developing programs. Rarely does the executive who is asked to prepare a program for the coming year or to lay out the steps in a new project have the time to make a completely original investigation, one that will determine the number of salesmen needed to cover a given territory, the quantity of materials needed to produce one thousand units of a product, the time that must be allowed between beginning production and actual delivery of products, and other such operating standards. Instead he takes operating goals that have already been established, modifies them where necessary for changed operating conditions, and uses the revised standards as a basis for building the program. If the needed operating standards have not already been determined, program development will be slow and expensive or it will contain large elements of guesswork.

4. Goals are, of course, a *sine qua non* for administrative control, that is, the securing of results in accordance with plans. Problems and techniques of control are outside the scope of this chapter, but two connections between goals and control may be emphasized in passing. In the recording and appraising of operating results, standards of some sort are vital if the appraisal is to have any validity. The goals serve as such standards. Also, the recognition and acceptance of objectives and standards play an important part in the motivation of individual effort.

Summary

Planning, that is, deciding in advance what is to be done, is an essential duty of every executive. It provides the basis for organization, assembling resources, direction, and control.

While every executive must do some planning, there is a wide choice in the types of plans he uses and the detail in which they are prepared. The nature and advantages of goals have been considered in this chapter. This, of course, is an incomplete picture, since the executive must also consider other types of plans and the limitations on planning before he is in a position to decide how much planning is practical.

The next three chapters, then, will take up single-use and standing plans and the limits on planning.

We have noted that planning in terms of goals covers a wide variety of activities. Goals range, for example, from a company objective to make low-cost products to an objective of a clerk to keep his desk neat; or from the aim of a Federal Reserve Board to help stabilize prices, to the aim of a bank teller to make legible entries in depositors' passbooks. Like other types of plans, the goal may be precise or loosely defined; it may be broad in coverage or apply to only a limited part of an operation. Although it is desirable that these goals fit together into an over-all plan, it is quite possible for a department head or first-line supervisor to set up his own set of goals, even when no over-all plan exists.

Distinctive benefits of setting up goals include: (1) Purposeful and integrated planning is made easier. (2) Unproductive work is more likely to be avoided. (3) Operating goals, or "standards," can be used as building blocks in developing programs. (4) Goals also serve as standards for purposes of control, and they play an important part in motivation. The other side of the story, limitations on the establishment of goals, is discussed in Chapter 4.

(References will be found at the end of Chapter 3, pages 54 and 55.)

Chapter 3

SINGLE-USE AND STANDING PLANS

Once an objective of an enterprise, department, or section has been set forth, the executive in charge must then map out a course of action to fulfill this mission. In other words, he must plan how he is going to accomplish the task.

This planning often is no simple job. There may be thousands of man-hours, tons of materials, innumerable customer contacts, large financial resources, and many other factors involved. Even a simple assignment will require careful planning if it is to be done with maximum efficiency. The executive should consider (1) what types of plans will be most useful to him, (2) how far it will pay to go in preparing such plans, and (3) what procedure he should follow in arriving at these decisions.

Broadly speaking, the executive may make single-use or standing plans; most likely he will use some combination of these. The single-use plans lay out a course of action to fit a specific situation and are "used up" when the goal is reached, whereas the standing plans are designed to be used over and over again. The purpose of this chapter is to examine various kinds of single-use and standing plans so that their nature and advantages will be clear. The choice and combination of these instruments decides the *form* planning will take. How far ahead and by what method these plans should be developed will be discussed in later chapters.

Single-use Plans and Their Advantages

There are several kinds of single-use plans that almost every executive finds useful sooner or later. Important in this regard are (1) major programs, (2) projects, (3) special programs, and (4) detailed plans. What is the character of each of these types and when should it be used?

Major programs

A major program shows the principal steps that need to be taken, with the approximate timing of each, to accomplish an objective. Considerable effort is required to design a good, comprehensive program, and the administrator should understand its nature and benefits in order to decide whether its preparation is worth the trouble in his operations.

The character of a general program is illustrated by the over-all planning for a vegetable cannery that was recently purchased from the former owner-manager by an investment group, which installed a new man as president. Three members of the investment group also had interests in grocery wholesaling companies, and part of the general scheme was that the cannery would serve as a significant source of supply for these wholesale houses. The new president proceeded to map out a general program. The types of vegetables to be canned were decided first, and then a sales forecast was prepared showing estimated sales of each product to the associated grocery houses and to the general trade for the next three years. On the basis of these figures it was possible to ascertain the capacity of plant and equipment that would be needed and to make general plans for additions to the facilities.

Another feature of the cannery program was deciding what key, full-time personnel should be maintained, and a plan was devised for additions and for dropping some of those already on the payroll. Inasmuch as canning is highly seasonal, it was also necessary to make estimates of fluctuations in the inventory that would be kept. And finally, on the basis of the foregoing decisions and estimates of cost and selling prices, the financial requirements were determined and a plan for financing the cannery was set up. By developing this comprehensive program, each part of which dovetailed into the other parts, the president was able to *anticipate possible trouble* or bottlenecks and arrange to meet these difficulties. Moreover, a basis was provided to *guide the more detailed planning* for the several phases of the cannery operations.

Some of the benefits arising from the use of a general program can be illustrated in quite a different field. During the war the demand for petroleum products was so acute that the Petroleum Administration for War found it necessary to develop an over-all program showing monthly the production and the use of crude oil, the output

of refineries by products, and the flow of the several products to each major area of the United States. This program was, of course, keyed in with requirements for military purposes and with the world-wide program for all the United Nations.

With the aid of this program it was possible, for example, to anticipate when the aviation gasoline requirements would rise to a level that would seriously reduce the available crude oil and refining capacity for other products, such as civilian-grade gasoline, fuel oil, and so forth. Had this not been foreseen, it is quite possible that the aviation gasoline program, which had top priority, would have precipitated a major crisis in the supply of the other products that were also vital to war and essential civilian activities.

The idea of a major program may be useful not only for over-all operations of an enterprise but also for a major undertaking. For example, a metal-equipment manufacturing company decided to produce a power machine that could be used to reduce labor costs in the installing of woodwork in new houses. The company bought the patent rights from the inventor and knew that the equipment would have to be sold to large contractors, particularly those erecting twenty-five or more houses at a given location. Beyond that the question was, "Where do we go from here?"

It was important that the production department not manufacture the new product in quantities greater than the sales department could dispose of, and, on the other hand, it was necessary that the sales department not promise delivery for products that could not be produced. Moreover, it was essential that the sales and production departments combined not embark on an undertaking that could not be financed by the company. Consequently, a general program was developed that covered the following points:

1. Designing the product for manufacture.
2. Tooling and raw material purchasing.
3. Production.
4. Display at the National Home Builders Convention.
5. Preparing sales literature.
6. Selecting dealers and demonstrators.
7. Providing capital requirements.

The timing of each of these steps had to be established, and while it was possible to do some of the things concurrently—for example, raw material purchasing at the same time that the sales literature was being created—other steps had to be done in sequence. Therefore, a

master schedule was necessary. Incidentally, in this particular instance the key date in the master schedule was the Home Builders Convention; this occurred but once a year, and if the machine had not been ready for display at this convention sales efforts would have been hampered significantly for an entire year. The company had a suitable organization and an adequate capacity to handle the new product. Still, considerable specialized and cooperative effort was necessary to *assure coordination* and effective launching of the new line.

Major programs were very useful in each of the instances just described. Nevertheless, a great many business enterprises and government bureaus do not set up such a plan in any clear-cut fashion. This may result from failure to appreciate the advantages of such planning, stability of operations that diminishes the need for programming, the limitations on planning discussed in the next chapter, or plain inertia and laziness. There may be good reasons why an executive does not set up a major program covering his activities, but the burden of proof should be on him if he fails to do so.

Projects

Frequently there are parts of a general program that are relatively separate and clear cut, and can be planned (and executed) as a distinct project.

In the general program just described for the development of the new woodworking machine, for example, the preparation of sales literature was set up as a separate project. The project, in turn, was divided into four major parts. (1) The advertising media had to be selected and appropriate advertising copy prepared. (2) A descriptive circular was needed to use in response to inquiries from the advertising and to be handed out by distributors in their contacts with potential customers. (3) Plans were made for answering written inquiries regarding the new product; this was done primarily by trying to anticipate the questions that would be asked and preparing standard paragraph answers to such questions. (4) Also included in the project was the preparation of specific though simple instructions for the use and maintenance of the product.

Considerable work was necessary before final decisions were made on each phase of the project. Those responsible for the sales literature had to work closely with the designers and also with those securing and training distributors and demonstrators. This cooperation involved both the content of the detailed subject matter and also the synchroni-

zation of timing; copy released for trade-paper advertising had to be geared to anticipated production and the operating instructions had to be available for demonstrator models and early deliveries.

The administrator may, of course, find it desirable to set up projects in almost any phase of his company operations. A large financial institution, for instance, decided that as part of its over-all personnel program it should base its salary administration on careful job evaluation, and the initial planning and work was assigned as a separate project. A plan had to be developed for each of the following steps:

1. Organizing and staffing. It was decided to have a policy committee, an evaluation committee and a (full-time) job analyst committee, and the duties and membership of each group had to be settled.

2. Setting policies for the project. Guides were needed from the start on such matters as positions to be covered by the survey, treatment of wage changes while the survey was in progress, general technique to be used in evaluating jobs (factor comparison was selected), and assurances that could be given to the employees regarding the effect of the study on their existing pay, particularly if it was higher than the maximum rate determined by the study.

3. Preparing job descriptions. This involved deciding on the form, content and terminology to be used in the descriptions; the training of analysts; and scheduling the actual interviews and studies of individual divisions.

4. Evaluating the jobs. Since factor comparison was the method employed, it was necessary to rank and rate a group of key jobs and then slot in all the remaining jobs for each of five compensable characteristics.

5. Making a market survey of wage rates prevailing in the community for comparable positions.

6. Developing a company salary structure. This involved decision as to the level of wages in the company relative to the market, the number of salary grades that would be used, and the maximum and minimum pay for each salary grade.

7. Installing the plan. The time when the new plan would become effective and the treatment of individual employees whose salaries fell either above or below the agreed-upon ranges had to be decided.

8. Informing employees. During the entire study, employees were informed of the purpose of each step that was being taken, their participation in the work, and the way it would affect them.

While it was not necessary to make detailed plans for each step in this project before starting on the first one, it was important to know what the steps would be in order to understand the importance of the activities at any given time, to plan the assignment of personnel to work on the project, and, perhaps most important, to be able to explain to employees and executives just how a particular part of the investigation was going to affect the final salary structure. The amount of money in the pay envelope is of major concern to every employee, and if projects such as this are not carefully planned it is possible that some part of it may miss fire and cause serious damage to employee morale.

The project is a flexible type of planning, and may be adapted to a variety of situations. If operations can be divided easily into separate parts with a clear termination point, the project is a natural and effective planning device.

Special programs

Another type of single-use plan deals with some one phase of company operations, but, unlike projects, has no clear completion date or point. Instead, these special programs are likely to cover a problem that is continuing, with the result that plans have to be adjusted from time to time to take account of the situation as it develops.

Special programs may be illustrated by the planning a medium-sized company did with respect to replacing its executive and sales personnel. At the time of the initial analysis, the key executives and their respective ages were as follows: president, 53; vice-president, 48; sales manager, 54; treasurer, 71; production manager, 66. All of these men were in good health except the sales manager who, six months earlier, had been in the hospital for a month with stomach ulcers. The sales force, which in this industry was a natural source for top executives, had been reduced by a death and a retirement from five to three; this posed an immediate problem because the company wished to expand its sales volume.

Even from this limited information it is evident that the company needed to develop a program for the immediate replacement of the treasurer and production manager and for an increase in the sales force. The treasurer's retirement had been anticipated in selecting an accountant, so what was necessary here was to arrange the actual transfer of duties from the older man to the younger man and to make salary adjustments. A man from the plant was selected as the likely

successor to the production manager, and placed in training for this position. However, the production manager was still active and his proposed successor had not yet demonstrated completely his ability to fill the top post, so the plan was to have these two work together as a team for at least the next couple of years.

The sales manager and vice-president proceeded immediately to locate potential salesmen. It was decided to seek fairly young men who had potential executive ability as well as sales ability. This was particularly important, inasmuch as none of the three older salesmen had shown ability to take over the sales manager's position should he suddenly drop out of the picture. After further consideration, it was decided to take no more than two salesmen on at one time in view of the problem of training them and working them into the company's sales operations.

These steps met the immediate needs of the company, but it was recognized that it would be unwise to wait for ten years before considering replacement for the other three top men. No immediate measures are being taken in this area, however, because the likely candidates are already embarked on an immediate training program or just taking over new duties. Nevertheless, these younger men are being watched closely and it is anticipated that about three years hence additional steps will be taken to train the most likely candidates to take on senior executive responsibilities.

In Part III the whole problem of executive personnel will be explored in more detail. This particular case is cited here merely to illustrate a situation where it is important to predict changes that are likely to occur over a period of several years and to decide what steps should be taken before the events transpire. In this way a company can deal with changes with the least disruption to, and perhaps even to the benefit of, its operations. An alert administrator should be on the lookout for circumstances where this type of planning will be useful.

Detail plans

For a great many situations, planning in even more detail than has been suggested in the preceding illustrations is highly desirable. In fact, the word "planning" is sometimes used to refer merely to the detailed arrangements necessary to carry out a major decision. Thus, the planning room in a production department frequently is concerned only with methods, instructions, material and tool requisition,

scheduling, and routing of specific orders through the shop. A good definition of this type of planning is: "The technique of foreseeing or picturing ahead every step in a long series of separate operations, each such operation to be of maximum efficiency, and of so indicating these steps that routine arrangements suffice to cause it to happen in the right place and at the right time." [1]

A common example of this type of planning is found in scheduling in machine shops that do varied work. Here the capacity of each machine and the time required to perform each operation have been determined, and as each order is received the necessary operations are noted and the work is assigned to individual machines. By keeping track of the work thus assigned and the work completed, it is possible to schedule the jobs that are to be done on individual machines and, with the aid of standard times, to know when jobs can be completed. In this manner a detailed schedule for shop operations is prepared, showing what jobs are to be performed on each machine each day, the time at which the various steps will be taken on a given order, and, therefore, when the order will be completed. A Gantt Chart similar to the one shown in Figure 4, page 24, is often used to schedule work to specific machines.

An essential part of such planning is, of course, keeping track of what actually does happen and adjusting the plan if, for some reason, the work either moves faster or more slowly than originally projected. When such scheduling is properly done it assures that the equipment is being used to the optimum and that jobs will be completed when promised. The possibility of getting rush orders through the plant can be ascertained, and the effect of such orders on work already scheduled is also readily shown.

Detailed scheduling such as just described is made possible through the standardization of methods and operating conditions in the shop. In other situations, particularly in those where several different people are involved, it is not feasible to exercise such close control. Nevertheless, where the results are highly important, as in a real estate negotiation or a labor negotiation, it may be desirable to plan very carefully what is to be said, what is to be done, the manner in which it is to be done, and who is to do it. Since the behavior of the other individuals involved may not be just as anticipated, such plans frequently have to be modified on the spot. Even so, the performance is probably much

[1] L. P. Alford and J. R. Bangs, *Production Handbook*, Ronald Press Company, 1944, page 69.

more effective than it would be if no such detailed planning had been done in advance.

This detailed planning sooner or later reaches a point of diminishing returns, so the administrator must decide in what areas, to what detail, and how far ahead it pays to make formal plans of this sort.

Hierarchy among single-use plans

These various single-use plans—major programs, projects, special programs, and detailed plans—should fit together into a consistent whole. The idea of a hierarchy of such plans is a simple and intriguing idea. A major program normally consists of a series of steps, and each of these steps becomes a project or special program in itself. The projects, in turn, are further subdivided into more specific assignments, and this process of narrowing the range as segments of the plan become more and more detailed continues until specific actions of each individual are decided. In the same manner, a general concept of a new product is reduced through planning into increasingly exact terms until the detailed specifications for each small part have been set up.

True, in actual practice it may not be practical to proceed in just this way. For one thing, some of the more detailed plans may be so crucial that they are settled first, and the broader plans adjusted to them. The capacities of existing equipment or a union contract that must be signed promptly to avoid a strike are examples of this. In other words, planning may come up from the bottom as well as down from the top.

Moreover, in a company of any size planning is done by many people, and they may work simultaneously and somewhat independently. If each person waited until the broader plans of those above him were settled, the time required to go from a general program to specific actions would be long indeed. So what often happens is that separate divisions go ahead with the preparation of their own programs, and later these are—or should be—fitted together into a master plan.

The concept of a hierarchy among single-use plans is extremely useful, nevertheless. Regardless of the order in which the plans are prepared, they should fit together as parts and subparts of an integrated scheme of operation. Their purpose, nature and timing should be dovetailed so that coordination results. The planner who doesn't make sure that his decisions fit into the broader course of action, and

are also consistent with more detailed plans of those who will do the actual work, may well be a "bull in the china shop."

Benefits of preparing single-use plans in advance

Before leaving this discussion of single-use plans, the advantages resulting from their advance preparation should be reviewed. Most of these benefits have been referred to in the various illustrations, but to be sure that they are fully recognized the more important ones are summarized below:

1. Integrated and purposeful action is more readily achieved. When plans are made on the spur of the moment, expediency is the rule and action taken today is likely to hamper work of tomorrow. Moreover, if action takes place in several places at the same time, action in one spot may interfere or undermine the work initiated at another point. Advance planning provides an opportunity for review to see that each part fits in with the others and is directed toward the over-all purpose.

2. Crises can be anticipated and delays avoided. When bottlenecks or weak spots are uncovered by careful and realistic advance planning there is often time to find a remedy before the event occurs, whereas expensive and lengthy shutdowns may be unavoidable if corrective action is not initiated until the crisis is present. Moreover, as Machiavelli observed centuries ago, trouble is often more easily corrected in its early stages than after a crisis has developed.

> Thus it happens in matters of state; for known afar off (which it is only given to the prudent man to do) the evils that are brewing, they are easily cured. But when for want of such knowledge they are allowed to grow so everyone can recognize them, there is no longer any remedy to be found.[2]

3. More efficient methods and procedures can be developed. Time is usually required for the systematic and thorough investigation of alternative methods. Decisions made in a hurry may possibly hit upon the most efficient methods, but they are more likely to rely on custom or any method that "gets by."

4. Delegation of authority to act is facilitated. Communication of plans to subordinates takes time; explanations and interpretations are often required and sometimes formal training is needed (this is more likely in the case of standing plans than single-use plans). In a small enterprise the decision-maker may have ready access to the men who

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[2] Niccolo Machiavelli, *The Prince*, Modern Library, page 11.

are to carry out the plans, but as supervision becomes more remote advance plans become more necessary.

5. The groundwork for control standards is laid. These operating plans, when translated into anticipated results, become standards of performance. The nature and importance of such *goals* has already been discussed in the preceding chapter, and will be considered again in the analysis of control in Chapter 23.

Standing Plans and Their Advantages

If an administrator had to develop a complete set of plans each time he wished to initiate action or there was a change in operating conditions, he would be faced with an impossible task. The time and energy required for planning might well exceed that devoted to the execution of the plans, and this could be justified only under unusual conditions. Instead, in every enterprise there will be found a wide variety of standing plans which are followed every time a given situation is encountered.

The distinctive characteristic of a standing plan is that the same decision is used to guide action over and over again. Thus, a policy to sell only for cash may be applied to hundreds of inquiries regarding credit terms; a standard procedure for the requisition and purchase of supplies may be used in all departments for a wide variety of needs; a standard method for shipping products may be followed by a whole group of packers almost every day in the year.[3]

Such standing plans greatly simplify the task of the administrator. They establish a pattern of action that the planner assumes as "normal," and he can then concentrate his attention on the changes he wishes to make in this customary pattern for abnormal circumstances.

It is true, of course, that many work habits or business customs just grow without any deliberate planning on the part of executives. Sometimes these behavior patterns simply reflect the way the first employee found it convenient to work, and this method was copied with minor modifications by subsequent employees. In other cases an executive may have been confronted with a specific problem on which he made a decision, and then when the problem came up again he

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[3] Some standing plans may not, in fact, be used over and over again. For example, plans for meeting a disaster such as a fire may rarely be put into action. Nevertheless, such "stand-by" plans are designed so that they can be used time and again if occasion warrants.

remembered that his original decision worked satisfactorily and so he decided in the second instance to follow the same behavior. After four or five decisions applying to the same situation this solution becomes, perhaps unconsciously, the standard answer to that kind of a question. If such policies and methods are accepted by the management to the extent that new employees are deliberately trained to follow them and all employees are subject to censure if they deviate from them without good reason or permission, they then become part of the standing plans of the enterprise.

Experience has demonstrated, however, that the administrator can profitably give careful attention to the standing plans he expects to be followed by those under his direction. Gilbreth, Taylor and other pioneers in the scientific management movement found that even skilled craftsmen following customary methods frequently are not very efficient. Similarly, Mace reports from a recent study of the administration of small enterprises that:

> ...an important management deficiency in the small businesses studied was the lack of conscious policy making by the owner-managers. Policy making as a management tool was not generally utilized. Major policy problems usually deserve and require more attention than that provided by a decision to handle a current and immediate situation.[4]

Many of the progressive companies recognize the value of having good standing plans and make special provision in their organization for the careful study of policies and of methods and procedures.

In considering standing plans it is often helpful for the administrator to give separate attention to: (1) policies, (2) procedures, (3) methods. Each of these will be examined briefly in this section to see how they may be used and what benefits result. Organization structure can also be thought of as a standing plan, inasmuch as the assignment of duties and the relationships established provide a continuing frame of reference to guide employees in their daily activities; this aspect of administration is given detailed consideration in Part II.

Policies

A policy is a general plan of action that guides members of the enterprise in the conduct of its operation.

An illustration of the need for policy is found in the recurring question faced by every executive responsible for machinery of when

[4] M. L. Mace, *The Board of Directors in Small Corporations*, Harvard University Press, 1948.

and how much money should be spent for maintenance. Where repairs are easily made and delays caused by breakdowns are not costly, it may be wise to postpone activity until something goes wrong. In many other situations a policy of preventive maintenance is the wiser course. The commercial airlines, for example, overhaul an airplane motor after a certain number of hours of service, even though it may be running satisfactorily at the time. Sales divisions typically require that salesmen's automobiles be serviced regularly and may, in fact, provide for complete replacement before the need for expensive maintenance arises.

In production operations preventive maintenance provides for the periodic replacement of parts that may break or wear out, regular inspection to detect weaknesses or poor adjustment that may cause trouble at a later time if not taken care of immediately, and similar efforts to anticipate trouble. Once a company has a clear-cut policy as to the extent to which it will engage in preventive maintenance, then the operating executive and the maintenance division itself have a guide that may be used time and again in deciding what action should be taken with respect to a given piece of equipment. This results in considerable economy of the executive's time.

Policies are also helpful in securing uniformity of action. For instance, the day is past when layoffs could be made according to the personal inclinations of several different foremen. Union or no union, it is now generally recognized as bad practice to have one foreman lay off on the basis of seniority, another on the basis of quality of work during the last week, still another on the basis of nationality, with perhaps a fourth using a "good guy" standard. Instead, most companies now have a clear-cut policy stipulating the basis for selection of men to lay off when a reduction in staff is necessary. Such a policy can be explained to employees in advance, and when applied throughout the enterprise goes a long way toward establishing a sense of fair play in the entire group.

Exceptions to the policy may, of course, be made in special circumstances, but such action is taken only after special review at two and perhaps three different levels of the organization, and the reason for the action is usually understood by all parties concerned. The usefulness of a policy is not vitiated unless exceptions become too numerous.

Some policies deal with the fundamental nature of a company's operations. A large New York store, for example, had followed a policy for years of catering to well-to-do women of mature years who

wish to buy high-quality, conservatively styled, and, frequently, custom-made apparel. This policy on customers affected the type of salespeople who were employed, the type of training that they received, the pricing policies of the company, the services it rendered, the collection of bills, and many other aspects of the operation. After a decline in sales volume, a new general manager was employed whose background had been in the selling of popular-priced apparel to women of all ages and tastes. A period of confusion followed during which it was not clear whether the store was going to maintain its former customer policy or shift over to a policy similar to that of stores in which the general manager had had his previous experience. During this interval the older customers were sometimes annoyed at the styles and the lower-quality merchandise they found in some departments, new customers attracted by the more flashy advertising found themselves getting personal service that could not be justified in terms of their potential purchases, and there was considerable difference of opinion as to the selection and training of new salespeople. This difficulty was not eliminated until the board of directors made a clear-cut decision as to the type of customer the store was going to try to serve.

Virtually every enterprise should establish a wide range of policies covering its more important operations. A suggestive outline of the subjects that might well be considered in this connection by almost any business establishment is given in Figure 5.[5]

The administrator of a given enterprise will have to decide which activities should be closely governed by specific policies and which can be better managed on a more flexible basis. He will have to weigh the benefits of clear-cut and detailed policies against the disadvantages of such planning. These disadvantages are discussed in the next chapter.

Standard procedures

The distinction between policies and methods or procedures is useful, although it is not clear cut. A "policy" typically covers a broad area or a basic issue, whereas "method" normally deals with the way a policy is carried out. This distinction between the broader aspects of an operating situation and the more detailed and specific considerations is useful in planning because it emphasizes a different viewpoint.

[5] For a discussion of each topic in this outline, see W. H. Newman, *Business Policies and Management*, 2nd ed., South-Western Publishing Co., 1947.

Does Your Company Have Sound Policies Covering These Points?

I. Sales Policies
  A. Products or services to be sold
    1. Type of products
    2. Number and variety of products
    3. Quality of products
  B. Customers to whom products will be sold
    1. Channels of distribution
    2. Type of customers
    3. Size of customers
    4. Location of customers
  C. Prices at which products will be sold
    1. Relation to prices of competing products
    2. Relation to costs of production and distribution
    3. Relation to prices of individual items
    4. Quantity and trade discounts
    5. Frequency of price changes
    6. Resale price maintenance
  D. Sales promotion
    1. Sales appeals emphasized
    2. Types and media of advertising
    3. Use of personal solicitation

II. Procurement Policies
  A. Producing versus buying goods needed
    1. Buying goods for resale
    2. Producing main items, buying others
    3. Producing own raw materials
    4. Producing own services
  B. When and in what quantities to procure goods
    1. Procurement for stock, budgeted needs, or to order
    2. Minimum inventories required
    3. Size of production run or purchase order
    4. Stabilization of production
    5. Anticipation of price changes
  C. Selection of vendors
    1. Number of vendors
    2. Type of vendors
  D. Production processes
    1. Basic process to be used
    2. Extent of specialization
    3. Extent of mechanization

III. Personnel Policies
  A. Selection
    1. Hiring new employees

FIGURE 5. Policy Outline for Typical Business Enterprise.

2. Promotion of present employees
3. Discharge of present employees

B. Training
1. Purposes of training
2. Use of training on the job
3. Use of organized training.

C. Compensation
1. Relation to market rates
2. Internal alignment
3. Use of financial incentives

D. Arrangements for work
1. Hours of work
2. Vacations
3. Working conditions

E. Employee services
1. Social and recreational activities
2. Safety and health
3. Pensions
4. Group insurance

F. Industrial relations
1. Company-wide and industry-wide bargaining
2. Grievances and arbitration
3. Union-management cooperation
4. Other means of communication

IV. Financial Policies

A. Uses of capital
1. Extent of investment in fixed assets
2. Restrictions on inventories
3. Extension of credit to customers
4. Use of capital not needed immediately for operations

B. Sources of capital
1. Owners
2. Long-term creditors
3. Short-term creditors

C. Protection of capital
1. Reduction of risks
2. Insurance
3. Hedging
4. Accounting reserves

D. Distribution of earnings
1. Plowing back earnings
2. Stable dividend rate
3. Adequacy of surplus

FIGURE 5. Policy Outline for Typical Business Enterprise (*Continued*).

Some executives have a tendency to become involved in methods and procedures to the exclusion of policies, whereas others have just the opposite tendency; for effective administration it is desirable, of course, that both policies and methods receive ample consideration. Also, the distinction between policies and methods is sometimes helpful in the process of delegation, as will be explained in Chapter 10.

This distinction is useful but not fundamental, since what is policy and what is method depends upon the position from which the operation is viewed. For instance, the board of directors may regard the choice of advertising media as "method" of sales promotion, but to the sales manager the use of daily newspapers is a basic "policy"; similarly the choice of type font is "method" to the sales manager, but may be "policy" to the layout man. From any given point of view, however, policy is clearly much broader in scope than either method or procedure.

While in common usage "methods" and "procedures" are frequently used interchangeably, in the present study "procedure" will imply a series of steps, often taken by different individuals, whereas "method" is concerned only with a single operation or work place.

In many types of business activity it is highly important to be sure that certain steps are taken and that the work is done accurately. Consequently, a detailed standing plan—in army parlance "standing operating procedure," or just "S.O.P."—is established. One bank, for example, has established the following standard procedure for the cutting of coupons on bonds that it holds for its own account or for customers' accounts:

A list, called "Withdrawal of Securities" is prepared from the Cross Index record of bonds. The customers' names, quantity and title of bonds that have coupons attached, falling due in the next period, are listed. Coupon envelopes are prepared, as well as ownership certificates (see Coupon Dept.). The coupon envelopes are prepared from the Collateral Loan cards and Safekeeping Book, thus acting as a check against the Cross Index Record. The securities are then withdrawn from the Vault and Collateral Truck by an officer and clerk, counted and checked to the list, the list signed by both representatives of the bank. The officer retains this list of securities. After the coupons are detached, counted and placed in the envelopes, the securities are again returned to their respective compartments in the Vault and the customers' accounts, in which case, duplicate credit slips are executed.

Outline of Job Analysis Procedure

A. Preliminary Arrangements
   1. Conference to outline job study held with member of the Job Evaluation Policy Committee, Chief Job Analyst, Department Head, Supervisors, Section or Unit Heads. Copy of "Preparation of the Job Description" given to Department Head.
   2. Distribution of Supervisor's and Individual Job Questionnaires by Department Head.
   3. (a) Outline of the functions and of the work of the Department or Division presented to Analysts by Department Head or Supervisor.
      (b) Preparation of flow-of-work and organization charts by Department Head or Supervisor.
   4. List of jobs and employees prepared by Department Head for the Committee.

B. Analysis of Questionnaires and Assignment of Work
   1. Completed questionnaires returned by employees, checked against list of jobs and employees by secretary.
   2. Supervisor's and Individual Job Questionnaires collated by secretary.
   3. Clerks to be interviewed selected by Chief Job Analyst on the following basis:
      Jobs with one to four clerks—one interview
      Jobs with five to nine clerks—two interviews
      Jobs with ten or more clerks—three interviews
   4. Schedule for interviews by Chief Job Analyst, showing daily assignments for each Analyst. For Department Head, Supervisor, Section Head, Unit Head or other unusual jobs, two analysts conduct the interview.
   5. Completed questionnaires distributed by secretary to Analysts for study.

C. Preparation of Job Descriptions
   1. Analysts conduct interviews, take notes, and write job descriptions in preliminary form.
   2. Preliminary job descriptions distributed among other Analysts for criticism.
   3. Job descriptions edited and checked for factual content, relationship to other jobs, and supervisory relationship by Analyst.
   4. Job titles approved by Assistant Personnel Officer.
   5. Job descriptions reviewed by Chief Job Analyst.
   6. Job descriptions typed in final form by secretary or typist.

D. Approval
   1. Job descriptions submitted by Chief Job Analyst to Officer, Department Head, or Supervisor for approval.
   2. Approved descriptions filed by secretary with interviewers' notes and working papers to await evaluations. Questionnaires also filed in permanent record.

FIGURE 6. Example of Standard Procedure.

One copy represents the credit to the account, and the other serves as a mailed notice to the customer.

A standard procedure should make sure that pertinent information flows to the people needing such data, and that each person involved in the process understands just what he is to do. The outline in Figure 6 of the job analysis procedure used by one enterprise emphasizes this aspect of procedures. Careful observance of these steps assures that the right persons take part in preparing each job description, that facts are assembled from several sources, and that the final document is reviewed by key operating and staff men. By making such steps established routine, the task of administration is significantly simplified.

Many procedures call for the transfer of information in written form. When this is so, the preparation of standard forms to be used is an essential aspect of the procedure. No end of confusion would result from the practice of recording information on sheets of paper of different sizes, to say nothing of the organization of the information on the paper. A well-designed form with lines for all of the essential information facilitates accuracy and completeness of information, permits rapid use, and also standardizes the record storage facilities.

Standard methods

Standard methods have received considerable attention, especially in manufacturing enterprises, ever since Frederick Taylor and his associates insisted that there was "one best way" to perform any operation. Much study may be necessary to ascertain just what the best method is, and management has a responsibility for maintaining standard operating conditions and for training the workers. Once these conditions are met, however, each worker performing the operation is expected to do it in accordance with the approved method. The net result usually is a substantial improvement in efficiency. There are also collateral benefits in making planning and control significantly easier. The description of a standard method for a simple operation is given in Figure 7.

The use of a standard method contributes not only to the efficiency but often to the quality of work and the uniformity of the products produced. For instance, the larger commercial laundries do not permit the girls ironing shirts to follow any method they choose. The parts of the shirt that may be run through a mangle and those that must be hand-ironed are carefully specified, as is the way in which each of

STANDARD RATE AND METHOD AUTHORITY

AMERICAN GREETING PUBLISHERS, INC.

DATE August 24, 1949 DEPT. NO. 26 SERIAL NO. 810-6

OPERATION TITLE Cellophaning - Insert Display Card into Sleeve. Applies to Top Fold Cards 4" x 5" to 5½" x 6½".

MACH. NO. _____ FIXTURE NO. BF 1021-1 UNIT OF MEASUREMENT 1 Card

ELEMENT NO.	METHOD DESCRIPTION
1.	Get 100 cellophane sleeves from "C" box 24" at left and place on fixture (BH).
2.	Get 50 pre-counted cards from "C" box at right; move to workplace and fan (BH). Place into card-holding fixture.
3.	Get one card from card-holding fixture, open on knob and move to sleeve (RH). Get one sleeve, open, and move to card (LH). Insert card into sleeve (BH). Position card in sleeve against bottom of sleeve.
4.	Fold card and sleeve, (BH). Reach to bottom of card, grasp and move to right, centering top of card in cellophane, (RH). Place card aside in finished card-holding fixture (LH).
5.	Grasp 50 finished cards in fixture and move aside to "C" box 21" at right (BH).
	NOTE: For Quality Control tolerances to apply, the cellophane sleeve must be at least 3/4" longer than the card. This standard will not apply if the sleeves are less than 3/4" longer than the card.

STANDARD MINUTES PER UNIT	UNITS PER HOUR	HOURS PER M UNITS
.2640	227	4.40

THIS STANDARD IS GUARANTEED

As long as conditions remain as described on this and accompanying sheets, and verified on film number 810-7. *It will be cancelled immediately if there is a change in method, material, quality requirements, or equipment, and a revised standard compensating for the changes made will be issued as soon as practicable.*

Courtesy, R. C. Rick

FIGURE 7. Description of a Standard Method. Source: *Modern Management*, October, 1949, page 24.

these operations is done. Likewise, the folding and the wrapping of the shirt is standardized. If each presser were permitted to follow her own inclinations in handling the work, some shirts would be done with meticulous care while others would come through with wrinkled collars and buttons off; the customer would be particularly aware of the variations in quality because some shirts would be folded one way and others another way. Obviously, the laundry attempts to establish a standard method that will give quality of product consistent with its pricing and customer policies.

Although standard methods have been developed in the most detail and applied most extensively in production operations, the general concept is applicable to some degree in every field of purposeful activity. Thus, the retail store that accepts telephone orders for its merchandise may well standardize (1) the conversation of the order-taker, at least to the extent of the expressions used in answering the phone, closing the conversation, quoting prices, suggesting substitutions, and the like, (2) order writing, including the way the pad is held, the type of pencil used, the inserting of carbons, the tearing out of completed orders, and the order form itself, (3) checking prices and inventory on hand, often through the use of stock lists fully indexed for ready reference. When such methods are carefully developed and a salesperson is properly selected and trained, the time required to handle a call often can be cut in half; moreover, the customers receive more satisfactory service and the amount of sales per call is increased. Contrast this with the results when the salespersons are permitted to take telephone orders on a "catch as catch can" basis.

Integration of standing plans

The standing plans of any single enterprise are inevitably related to one another and care should be exercised to see that the plans are properly integrated.

As with single-use plans, there is a hierarchy aspect about standing plans. This is reflected in the fairly common division of policies into basic, general, and departmental. Again it is indicated in the concept that policies are general plans of action, whereas methods and procedures cover the particular manner in which these policies will be executed.

This idea of status among the standing plans was clearly indicated when a large oil company decided that the purchase of crude oil in the field was an expensive way to acquire control over raw material and that in the future the company would also engage in scientific prospecting. The basic policy to engage in prospecting led to the adoption of a number of subsidiary policies, such as the geographical limits within which the company will support exploration, the use of seismograph technique in seeking new fields, the encouragement of joint ventures with other oil companies when drilling exploratory wells, and the practice of employing geologists familiar with a particular locality when leasing or drilling in that area is under consideration.

These subsidiary policies, in turn, led to the adoption of some standard methods. For example, the seisomograph crews have a standard routine they follow when "shooting" a given area.

Clearly, whenever such a hierarchy of standing plans exists, the broader the plan the more dominant it is, and any other plan directly subordinate to it contributes toward the achievement of the broader course of action. This does not mean, however, that every broad policy will necessarily have a whole group of subordinate standing plans, because the subordinate activities may not be repetitive enough to justify this type of planning.

Entirely aside from any concept of relative status or hierarchy, the standing plans should be consistent one with another. For instance, a management consulting firm that seeks work from a large number of small companies should make sure that its standing plans dovetail together. The services will probably be somewhat standardized in order to lower costs and fees; several offices in different centers will be needed to gain ready access to small businesses; considerable decentralization of authority will be necessary; the length and expense of staff training will have to be kept low; and so forth. These personnel policies, organization and location plans, and standardization of services fit into an over-all concept of operation. Without such consistency among plans, inefficiency—if not outright conflict—is likely to develop.

Furthermore, single-use plans must be integrated with standing plans, inasmuch as programs, projects, and schedules typically are prepared on the assumption that standing plans will continue in effect. Thus, the development of a program for new woodworking equipment, described briefly at the beginning of this chapter, was done within a whole framework of existing policy with respect to personnel, production technique, finance, and organization structure. Likewise, the new program assumed the continuance of the established methods of machine operation and procedures for procurement and accounting. Insofar as the new woodworking program could utilize the existing standing plans, the integration of the program into over-all company activities was easy. Nevertheless, care was necessary to make sure that the standing plans were appropriate, since it would have been much wiser to make a specific exception for the program or to modify a standing plan itself than to jeopardize the new undertaking.

Therefore, a standing plan or a single-use plan, while it is often the subject of intensive study and discussion by itself, must be considered as a part of the total plans of the enterprise.

Advantages of using standing plans

Most administrators recognize that policies and standard methods and procedures have a place in management planning, but the practical questions are: When should they be used? How specific and detailed should they be? The answers to these questions rest on a careful consideration of the advantages and disadvantages of standing plans as they apply to the specific situation. Among the benefits that an administrator may expect to obtain from the use of standing plans are the following:

1. Executive effort is economized. Once the standing plan is established it is unnecessary for the executive to redecide the same issue. The plan is applicable, of course, only under a given set of conditions. Someone must ascertain that these conditions prevail in the case at hand, but if this is true no further decision by the executive is required. Moreover, less time is needed for instructions and explanations of what is to be done.

2. Delegation of authority to act is greatly facilitated. Often the "exception principle" is utilized, under which subordinates are expected to proceed with action so long as the situation is covered by standing plans, but when exceptional problems arise to bring these to the attention of the supervisor. If this arrangement is carefully observed, an administrator can maintain close control over a large volume of operations with relative ease. He knows that consistent action is being taken on similar cases; he can predict what the action will be; and he knows that the action is in accordance with his best judgment.

3. Widespread use of "the one best way" is possible. If an operation is to be repeated a large number of times, considerable effort to ascertain the most efficient way of performing it is warranted. And, having discovered this method, it is made standard practice for all those who perform that activity. It is quite possible, of course, to have standing plans that are far from the most efficient; this is likely to happen when plans are not currently adjusted to changing conditions or when traditional behavior is adopted as the standard without critical examination. In such cases, the other advantages of standing plans are still obtainable, but a significant source of economy is being overlooked.

4. Significant personnel economies are possible. The establishment of standing plans for a large part of the duties of a given position make it possible to fill such positions with persons of less experience and all-round ability than would be needed if the encumbent made the plans himself. The training of persons to fill such positions is made easier by the existence of recognized policies and procedures, and the transfer of employees from one position to another in the same organization is likewise eased.

5. Control is made easier. Standing plans, especially standard methods and procedures, lead to uniformity of action, and it is possible to establish relatively definite performance standards for such activities.

6. Coordination of activities is greatly aided by a preliminary coordination of plans. The clear statement of both single-use and standing plans permits a check of one with another, and opens the way for greater consistency and synchronization.

Summary

Good planning depends in part upon choosing the best forms or types of plans for the specific operation. There are several types that should be part of the "kit of tools" of every executive. He should know the nature, benefits, and limitations of each type of plan so that he can be adept and flexible in laying out his work.

Operating plans fall into two broad groups, single-use and standing plans. In the single-use group are general programs, projects, detailed schedules, specifications, and methods. Standing plans, which are used over and over again, include policies, organization structure, standard procedures, and standard methods. In both groups there are broad plans covering a wide range of activities and often a long period of time, and also detailed plans dealing with the action of a single individual for a short interval.

This range of possible operating plans is indicated, along with goals, in Figure 8. The diagram suggests an over-all concept of planning that can be adapted to many managerial jobs.

In addition to the selection of the proper types of plans, the executive should seek *integration* of his plans. The various plans should be consistent with each other. Also, it is usually helpful to recognize a *hierarchy* among the plans, in which the more specific plans are subordinate to and within the limits of the broader, controlling plans.

This does not necessarily mean that all detailed planning should be deferred until broad plans are settled, nor does it dictate the degree of centralization in the organization; but whatever the sequence or place of their preparation a sound relationship between the plans should be secured.

SCOPE	GOALS	COURSES OF ACTION	
		Single-Use Plans	*Standing Plans*
Broad Plans ↕ Detailed Plans	Objectives (Missions)	General Programs	Policies
	Budgets and Deadlines	Projects	Organization Structure
	Performance Standards for Expense, Quality, Quantity, etc.	Personnel Assignments	Standard Procedures
		Detailed Schedules, Specifications, Methods, etc.	Standard Methods

FIGURE 8. Types of Administrative Plans. This concept of plans may be adapted to any administrative unit, that is, to an entire enterprise, a department, or a small section.

A number of benefits resulting from the advance preparation of operating plans have been stressed. Among these are: (1) Integrated and purposeful action is more readily achieved. (2) Crises can be anticipated and delays avoided. (3) More efficient methods and procedures can be developed, especially for standing plans which will be used time and again. (4) Delegation of authority to act is facilitated. (5) The groundwork for control standards is laid. (6) Executive effort is economized where standing plans can be used. (7) Coordination of activities is aided by preliminary coordination of plans.

But, thus far we have looked at only the positive side of the picture. There remain two very practical aspects of planning to be examined: (1) the factors that limit the period and detail in which it pays to plan, and (2) the techniques to use to arrive at wise planning decisions. After these issues have been considered in the next four chapters, we will be ready to move on into matters of organization and other steps necessary to carry out the plans.

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Chapter 4

THE LIMITS OF PLANNING

In the preceding discussion, the benefits an administrator may receive from planning have been emphasized. Among other things it was noted that planning promotes consistent, integrated, and purposeful action; crises are more likely to be anticipated and mistakes avoided through careful planning; economy is secured through purposeful action and the avoidance of difficulty; time is available to determine the most effective methods, and once identified these methods may be used again and again; with plans established, executives are able to delegate authority to act with less risk that the authority will be abused; moreover, the plans form a basis for reasonable and effective control.

This is a potent list of advantages, and on the face of it one might conclude that the effective administrator should insist that every action of members of the enterprise be planned in detail for a long period in advance. There are, of course, some very practical limitations on the use of planning, and one of the important duties of an administrator is to decide in light of these limitations just how far his particular enterprise or department can carry the planning concept.

Henry Dennison has observed that "Almost all work, in order to be done at all must be planned, at the very least informally and a few minutes ahead." [1] That is, even our unsystematic plumber who is installing a new water connection makes a decision (a plan) to cut and thread the pipe, and with this plan in mind proceeds to obtain the pipe and get the necessary tools. The question, then, is not whether there shall or shall not be planning, for it is inevitable that on-the-spot plans be made by someone. The crucial issue is how far in advance and in what detail these plans should be made (a related question as to who should make the plan is considered at some length in the chapters on organization).

What are the things that make it impractical for extensive planning

[1] *Organization Engineering*, McGraw-Hill Book Co., 1931, page 149.

to be undertaken for long periods in advance? Is there anything that an administrator desiring to secure the benefits of planning can do to at least partially overcome these limiting factors? It is to the answers to these questions that we now turn our attention.

Reliability of Forecasts

Need for accurate forecasts

Most business plans are based on a whole set of assumed conditions—involving the market, raw material supply, governmental controls, available personnel, operating efficiencies, competitors' behavior, price levels, and numerous other factors. A plan is useful only as long as the assumptions on which it is based prove substantially correct. An engineer dealing with inanimate materials can predict their behavior with considerable, though not complete, accuracy. A military commander bases his campaign on a great mass of data secured by his "intelligence" division. Many of the assumptions of the administrator, however, deal with social conditions and human behavior, which are to a large degree unpredictable. If the operating conditions change significantly, the plans lose much of their value. To the extent that future conditions cannot be reliably forecast, the usefulness of planning may be questioned.

The effect upon practical planning of the inability to forecast accurately may be illustrated in the instance of the American Independent Oil Company. This company obtained a drilling concession from the Sheik of Kuwait in the oil-rich Persian Gulf. Since almost all of its stockholders were domestic oil companies that operated refineries in the United States, plans might have been made immediately for the distribution of the crude oil that was to be secured from this concession. While it was probable that oil would be produced in the area, still considerable time would elapse before the discoveries could be made, wells and pipe lines completed, and the oil made available for the stockholders. During the interim the quantities and grades of crude oil needed by the various United States refineries might change and plans made when the concession was obtained would have no particular value when the oil became available. In fact, the numerous technical and political difficulties that had to be overcome before even test wells could be drilled made the planning of production, well-drilling, and transportation premature at the time the concession was obtained.

Accurate forecasting may be difficult for an established enterprise in a purely domestic situation. Few retail stores, for example, feel confident enough of their ability to predict consumer demand, supply conditions, and other market factors to make detailed advertising plans three months ahead. The broad characteristics of the advertising campaign may be mapped out, but the items to be featured, the stress to be laid on price, the attempt to counteract competitors' advertising are all so unpredictable that the actual copy is prepared only a few weeks in advance of its publication. Such unpredictability is characteristic of many areas of human activity.

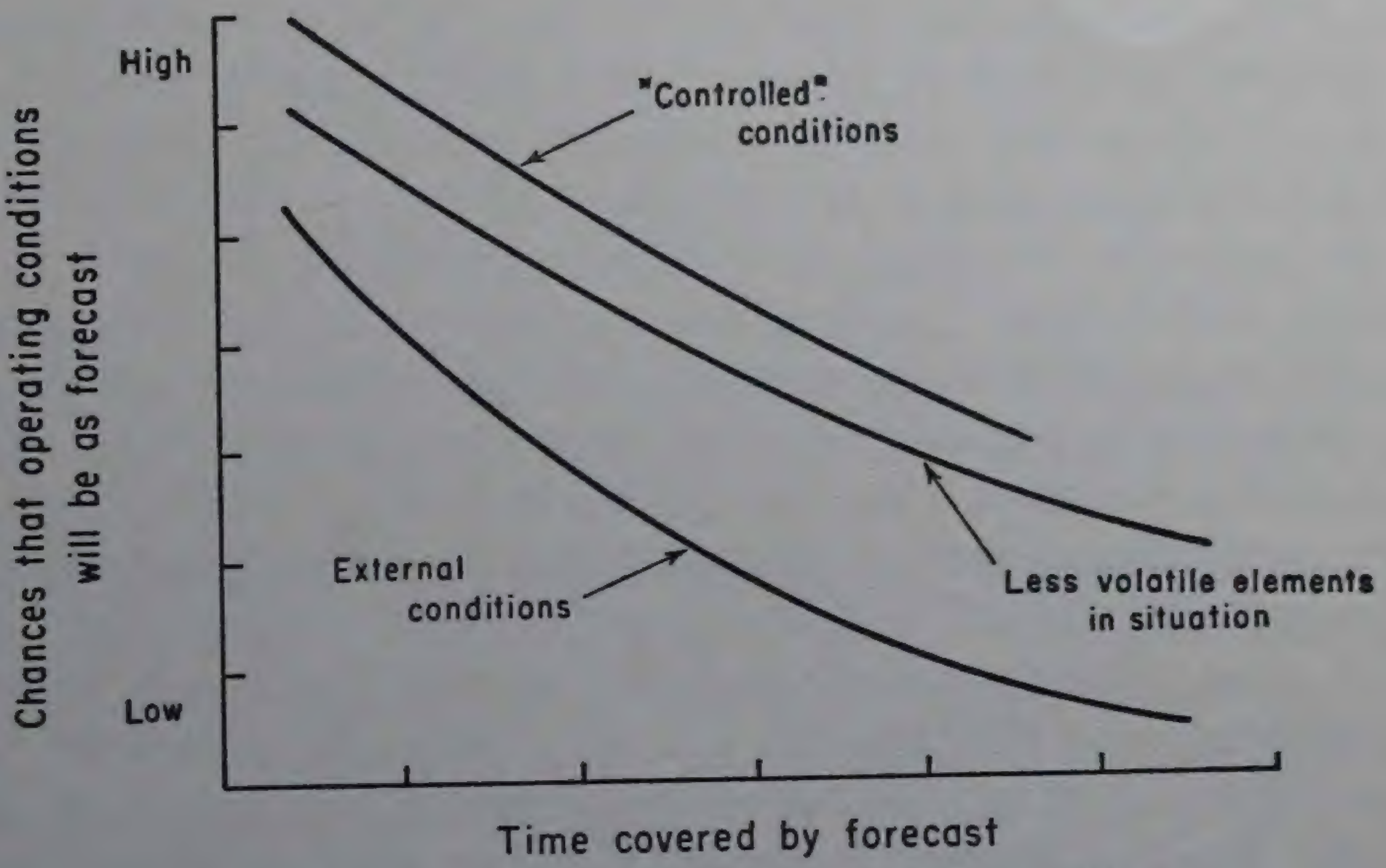

FIGURE 9. Effect of Time on Accuracy of Forecasts.

The reliability of most forecasts diminishes rapidly as they are projected further into the future. Wage rates, material prices, nature of competition, and many other things normally may be predicted with reasonable confidence for two or three months; it is possible to make a really informal guess about them for a year hence; but a forecast for three or four years is hazardous and must be couched in terms of general trends. Except for a few things like the weather, which may be predicted more accurately for a month than for any particular day in that month, the longer the period covered by the prediction, the more likely are unanticipated events to upset the calculations. This inverse relationship between time and accuracy of forecasts is diagrammed in Figure 9.

The eroding effect of time on predictability is one of the primary reasons why it is practical to plan in considerable detail for activities in the relatively near future, but impractical to make detailed plans for several years in advance. Moreover, if we "wait and see how things work out" we have that much additional information upon which to make our forecasts for a subsequent period.

Overcoming unreliable forecasts

Administrators who wish to enjoy the benefits of planning can at least partially overcome the limits imposed by unreliable forecasting in two ways. First, they may make studied attempts to *improve* their *forecasts*. Thousands of companies subscribe to one or more forecasting services or employ some economic consultant to advise them. Many companies have made great strides in the compilation of data upon which to base predictions; for example, the automobile companies receive from week to week the sales, automobiles on hand, used car prices, and other market information from all of their dealers throughout the country. Several of the larger companies have a separate division whose sole mission is to prepare business forecasts. Of course, if the uncertainty relates to internal conditions, forecasting can often be improved by exercising closer control—as will be discussed in later paragraphs.

A second way to deal with unreliable predictions is to *detour* around the areas of greatest uncertainty. For instance, if securing an objective within a definite time is of sufficient importance, as it often is in military operations, alternative programs may be developed and started in operation; then, when it becomes apparent what the operating conditions actually will be, the most effective alternative is followed to its conclusion. Obviously it would be more economical to follow only the one alternative finally used, and in most business enterprises the pressure for economy dictates that a single course be followed even though it is admittedly more risky.[2]

In a few situations unreliable forecasting may be counteracted by hedging; that is, by arranging operations so that losses in one area will be offset by gains in another, or vice versa. In a narrow sense, hedging is applicable only to protection against price changes for a limited

[2] The danger of following a single though risky course may sometimes be partly offset by insurance. As a rule, however, insurance is practical only for catastrophes that are quite unlikely to occur, and hence are not covered in the regular planning.

number of commodities; the general principle, however, is sometimes applicable in other situations, such as offering two or more styles of products with the expectation that if one does not appeal to customers the other will, or locating plants both in the United States and abroad so as to be able to serve the foreign market regardless of the changes in foreign exchange rates.

The most common way to detour around unreliable forecasts is to separate those parts of the operation that will not be affected by the uncertain factor—volume, style, weather, or whatever it may be—and then making a tentative plan for the remaining segment in considerable detail. When the uncertain factor is finally settled, it is, relatively, a simple job to pull the various parts of the program together. It is quite possible, for example, to do the design work and develop engineering specifications for a product before it is practical to decide when, and perhaps in what plant, it will be produced. Many an advertising campaign has been mapped out, copy prepared, media selected, and all completed except for the timing which depended upon factors difficult to appraise when the planning was initiated.

These means of overcoming unreliable forecasts are at best only partial remedies. Improved forecasting technique may push forward the time span of confidence, but the practical limits are soon reached for most enterprises. The detours around unpredictable elements are only applicable in certain circumstances, and even then apply only to part of the operations of the enterprise. Consequently, the inability to forecast accurately remains one of the factors that limit the period and the detail in which planning is practical.

Recurrence of Similar Problems

Repetitive operations essential to standing plans

Standing plans by their very nature are useful only to the extent that an operating situation is repeated again and again. They are not well suited to such things as the negotiation of a labor agreement, the tearing down of an old building, or the manufacture of an experimental airplane. The special needs of specific customers, personnel, equipment, competition, and the like may justify special treatment. It may be that such a large part of the activities under the direction of an executive deal with these special situations that standing plans have very limited use to him; the activities in question may be rarely

repeated, if at all, or the situation in which they take place may be so dynamic that each problem calls for its own treatment. Single-use plans and goals may, of course, be used to considerable advantage, but standing plans appear to be ruled out under such conditions.

Seek out and maintain standard operations

The administrative job is tougher if, because of an ever-changing operating situation, standing plans cannot be used. Standing plans are an important device for relieving the pressure on an executive and for securing efficiency in operation. It is natural, therefore, that an executive should seek to obtain at least some of these benefits, even though the activities seem to call for individualized treatment. Two important ways in which this may be accomplished are: (1) isolating repetitive aspects of the situation and standardizing the treatment of these, and (2) controlling the operating situation so that greater repetitiveness is present.

Many operations that vary from one time to another in certain characteristics are nevertheless similar in other respects. While it would be a mistake to attempt to use standing plans for the entire operation, they still may be very helpful for parts of it. For example, it is often true that policies can be established to advantage, even though more detailed standard methods may be inappropriate. Thus, a company may have policies with respect to the size, location, and type of customer it will solicit and the basic sales appeals it will use, but not have a standardized sales approach for its salesmen. Likewise, there may be a policy of promotion from within the company, but no standardized path that an employee in the maintenance department or the insurance department must follow if he is to obtain higher-paying jobs. In fact, it is a rare enterprise that does not have sufficient similarity in some of the issues facing the executive to make the use of policies a desirable administrative tool.

Also it is possible that *part*, though not all, of the methods may be standardized. For example, in selling, the writing of sales orders, the physical handling of display material, or the writing of the omnipresent daily report on calls made may be standaridized, even though most of the selling activity is left to the discretion of salesmen. In the machine shop it is entirely possible to develop a "one best way" of operating machines, even when there is great variation in the dimensions of the parts being made and the final product that will be

assembled. In fact, careful analysis shows that a great many operations have repetitive aspects about them and the operators will develop customary and habitual methods of performing these aspects even though the executives of the department take no initiative in the matter. So, the area over which the concept of standing plans may be applied beneficially is much wider than appears at first glance.

Another way the administrator may increase the applicability of standing plans is to deliberately *regulate the operating situation* so that conditions will remain approximately the same each time an operation is performed. This was an essential feature of Frederick Taylor's *Shop Management*, for he laid great stress on uniformity of raw materials, maintenance of tools and equipment in top operating condition, avoidance of waiting for materials or new work assignment, and objective standards of satisfactory work. As long as these things were permitted to vary, it was difficult and unreasonable to insist on standard methods and standard output time, but once management brought them under control the use of standard methods became very practical.

Similar actions designed to create stability and uniformity in operating conditions are possible in a variety of activities. The insistence on the use of standard forms and procedures throughout an enterprise makes it possible to routinize a great deal of the work of the accountnig department. The adoption of recognized material specifications and establishment of a material requisition procedure permits a certain degree of standardized procedure within the purchasing department.

This standardization, however, is very largely confined to activities within the enterprise. When dealing with outsiders, such as customers, vendors, or trade association officials, such control is much more difficult and the enterprise must adapt itself to the wide variety of situations that naturally arise.

And so, in dealing with the lack of recurrence of similar conditions, the administrator can extend the limits of practical planning to some extent. He may seek out repetitive aspects of what appear to be different operations, and he may be able to establish some uniformity of working conditions at least within the four walls of the company. Nevertheless, every administrative situation is more or less dynamic and most external factors are not subject to managerial control; to the extent that this is true we find a very real limitation on the use of standing plans.

Tendency Toward Inflexibility

Reluctance to change

The establishment of advanced plans tends to make administration inflexible; the more detailed and widespread the plans the greater the inflexibility. Theoretically this need not be so, for the man who makes the plans obviously has the right to modify them; the tendency exists nevertheless. In a large chemical company, for example, a new management placed great stress on laying out general programs for at least a year in advance and very specific programs for a six months' period. This worked very well until there was a sudden downturn in the prices of chemical products to which the company made relatively slow adjustment. Perhaps the detail of the plans made the executive feel too secure and thus inattentive to changes in marketing conditions; no doubt there was a tendency, having once prepared a plan, to "make it work." Looking back on the experience, a number of the executives feel that their enthusiasm for planning seriously interfered with the readjustment and cost the company thousands of dollars.

This is no isolated case of inflexibility. Any college professor who has sought to have a change made in the schedule of courses or the assignment of rooms once these plans have been completed is fully aware of the difficulty of making a change even for good reasons. A shop foreman who has once made up his mind to a course of action is likewise slow to make room for a rush order or a shift to another product.

This inflexibility is partly a *psychological reluctance* to change a decision; planning is hard work and there is not much fun in going over the same ground two or three times; a mind-set has been established, and it is difficult to maintain a fresh and objective viewpoint; there may well be a sense of "loss of face" when first guesses have to be modified.

Moreover, a well-developed program is likely to lead executives throughout the enterprise to *make commitments*—for materials, to employees, to customers, et cetera—well in advance. Then, if subsequent conditions make a revision of the plans desirable, the man who has a well-developed program may be at a disadvantage in relation to the man who crosses his bridges when he comes to them. This suggests that the man with a program to guide his actions but who delays commitments until it is definitely desirable to make them is following

a wise course; such good judgment and self-discipline, however, are not always achieved. Chester I. Barnard, formerly president of New Jersey Bell Telephone Company, has observed in this connection:

> The fine art of executive decision consists in not deciding questions that are not pertinent, in not deciding prematurely, in not making decisions that cannot be effective, and in not making decisions that others should make.[3]

Standing plans are often more inflexible than the single-use plans just discussed. The inflexibility of military and governmental procedures is all too prevalent; many an officer has put through an action he knew was not best rather than run the gamut of an exception. The author remembers sitting for three hours in the office of a trust company while the officials of that renowned institution and the Philadelphia Electric Company quibbled over who would modify their customary procedure so as to permit the installation of an electric range (in which neither of them had any financial interest), and the reader can undoubtedly supply his own grotesque examples of red tape interfering with effective action.

Standing plans soon take on the aspects of habit and tradition, and for ease of supervision it is desirable that they should. Still, as any reformer knows, people are loath to change their customary manner of behavior unless present conditions are clearly unsatisfactory and/or the proposed change offers definite benefits. This natural conservatism of both executives and operators means that there is an ever-present danger that standing plans will be outmoded and that exceptions will be made reluctantly.

Revising plans

There are a number of things the executive can do to counteract this tendency toward inflexibility. He can make provision for *regular review* of existing plans for the purpose of changing them as may be necessary in light of experience and the current situation. He can *provide for exceptions* to the standing plan, perhaps by authorizing the man on the firing line to make such exceptions and report the reason therefor later, or at least by providing for ready access to some person authorized to make such exceptions. Finally, he can try to create a psychological *attitude that favors adaptation* rather than inflexibility. This attitude is, in part, a willingness to make changes, but perhaps more important it is a stressing of objectives and goals so that

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[3] *The Functions of the Executive*, Harvard University Press, 1938, page 194.

members of the organization will accept and even urge a change when a particular plan is not furthering the purpose of the enterprise.

It should be clear that revisions and exceptions detract from the benefits of planning, and if they are too numerous it is entirely possible to reach a point where planning is "a lot of work and nobody follows it anyhow." The longer the duration and the more detailed the plan, the more likely are revisions and exceptions to be necessary. And there is always the very real danger that inflexibility rather than exceptions will dominate. Some degree of inflexibility is part of the price of planning, and the administrator must decide at what point the price becomes greater than the benefit.

Expense of Planning

Balancing expense and benefits

Planning is expensive and the advantages may not warrant the required expenditure. Well-developed plans usually call for considerable gathering and analysis of facts, exchange of ideas by operating executives, and attention by the top administrator. If the plans will have to be revised later, or if the activity studied is not very important, then the effort devoted to planning might better be spent in some other way.

Since standing plans are intended for repeated use, it often pays to carry them into much greater detail than is justified for single-use plans. For example, pipe-fitting in ship construction is essentially an unplanned activity. It would be possible through detailed plans and specifications to determine in advance the exact length and shape of each piece of pipe needed, but this would be a difficult task because there are very few 90° angles and many obstructions, which makes almost every piece of pipe a special item. Aside from a few wartime exceptions, such as Liberty ships, almost every vessel constructed is a special job and the detailed plumbing plans for one ship would not be applicable to another. In this situation the cost of planning would far outweigh the benefits secured, and it is almost universal practice to rely on skilled pipe fitters to measure, cut, and try as they go along.

On the other hand, we know that Frederick Taylor and his associates devoted years of work and used up thousands of pounds of metal in determining methods to be followed in machine shops. In this instance, however, the standard plans that finally resulted from the studies could be used over and over again, and the economies obtained

from these repeated operations soon paid for the high expense of the original study. Generally, the cost of preparing plans does not increase proportionately with the expansion of an activity, so the volume of repetitive work is a significant factor in appraising expense.

The expense of preparing plans and the benefits derived from their use, though very real, are both difficult to measure. Consequently, considerable judgment is required in deciding when planning no longer pays its way. The expense of special planning departments such as engineering, market research, or production methods can, of course, be isolated, but as a general rule in business establishments the total expense of these departments can be justified if their work is effectively utilized by operating personnel. It is the time and energy that the operating personnel devote to planning that is hard to measure expense-wise. As planning is pushed farther ahead in time and further down in detail, a point is reached where these executives might better be devoting their time to some other administrative activity.

This balancing of expense and benefits of planning should be done on an "incremental" basis. Just because engineering, for example, is essential to good operations does not mean the time and expense devoted to engineering should be unlimited. Instead, the pertinent question is whether the *additional* (incremental) *expense* of more engineering will be greater or less than the *additional benefits* secured.

Time Required

Speed versus accuracy

Planning is time-consuming, and under some circumstances prompt action is more important than the advantages of advance planning. The influence of the time available on the detail to which planning was carried was dramatically illustrated in World War II; first in the retreat from Dunkirk and second in the invasion of Normandy. When time is of the essence as it was at Dunkirk, detailed planning often goes in the discard. There are likewise occasions in business when prompt action following a change in operating conditions or receipt of additional information is more important than detailed planning. In a competitive market situation, in emergencies, in the process of negotiations and similar situations there may be little doubt that careful planning would improve the decision, but the fact that action taken a week or a month hence would be too late makes such planning impossible.

The need for prompt action is not a limiting factor, of course, on standing plans; even though a week or a month may be required to prepare them, they will still be useful the following month and the next and the next.

Anticipating emergencies

Although emergencies and other needs for prompt action cannot be avoided, the executive need not sit back and wait for the lightning to strike. It may be possible for him to predict, say, a month in advance that there is a fifty-fifty chance that the emergency will occur; then if the matter is serious enough he can prepare tentative plans to be put in effect when and if they are needed. If the emergency does not occur, the expense of preparing the tentative plans is regarded as an insurance premium.

Another approach is to develop policies, standard methods, and procedures that may be quickly brought into effect at the appropriate time. Not only fire departments and hospitals, but also many companies faced with irregular demand for their product or calls for special customer service, are set up to operate on this basis. The executive faced with emergency still has to take prompt action, but this action can be better planned because of the thinking that has been done in advance.

Effect on Individual Initiative

"Theirs not to reason why . . ."

When planning is comprehensive in scope and extending down to detailed activities it tends to stifle the initiative of individual operators and supervisors, especially in those large enterprises where many standard methods and procedures are set centrally. There is danger that men may be regarded as automatons. As one army colonel who was recently assigned to a large university for graduate study remarked, "I've been following S.O.P. [standing operating procedure] so long I no longer can think for myself."

The current discussion of foremen's unions also reflects a change in opportunity to exercise initiative. It is contended by advocates of foremen's unionization that the man who fifty years ago was an independent boss of his department is now little more than a messenger and a lead man. Plans as to what work is to be done, how it is to be done, the machines to be used, the people assigned to his department,

their training, the pay they will receive, the disciplinary action that may be taken, the checking on quality, the safety measures to be followed, the reasons for unfavorable costs, and the steps to be taken to correct them are now, it is contended, all decided by someone else. The planners, so runs the argument, have taken over and there is virtually nothing left to the judgment and initiative of the foreman, let alone the operator himself.

It will be noted that the fundamental issue is, who does the planning, the worker and the foreman or someone else? This is a matter of organization and will be discussed in more detail in later chapters. It is generally true, however, that with the increasing emphasis on better planning there has been a tendency to shift some of the planning work to special planning divisions and to establish policies, programs, and standard procedure, all of which tend to circumscribe the discretion of the man on the firing line. Thus, it usually is true that with more extensive planning a large group of employees have less freedom in the exercise of their own judgment. Conformity, rather than originality, is expected of them. This restriction on initiative tends to snuff out the creative spark that is so essential in successful enterprise, and it also has a bad effect on morale.

Participation in planning

What can the executive do to overcome this disadvantage of extensive planning? First, it is desirable and in some situations essential, that the man on the firing line be *consulted* regarding many of the decisions affecting his work. He has intimate knowledge of operating conditions that both the planning division and the higher executive lack. Consequently, it is wise practice, and an increasingly prevalent one, to seek the ideas and opinions of the people who have to carry out the plans. Second, special care can be taken to identify those individuals who have initiative, originality, and sound judgment and then *transfer* those people to spots where these abilities can be used. Emphasis on planning, and the establishment of special planning divisions, has increased the number of positions where just such talents are needed.

Extensive planning does affect the opportunities for individuals who demonstrate initiative. However, if steps such as those just suggested are taken, this can be a change in where and how initiative is expressed rather than a reduction in opportunity. Consequently, it is doubtful if the administrator should fail to undertake extensive planning be-

cause of the effect upon individual initiative. Instead, he should take steps to make sure that the effect is not undesirable.

Summary

No enterprise can exist without some planning. The real question is, "How much?"—that is, how far ahead and in what detail should planning be carried?

The chief limits on the extent of planning are: (1) inability to forecast accurately, (2) absence of repetitive operations, (3) tendency toward inflexibility, (4) expense of planning, and (5) time required for planning. Ways have been suggested for overcoming these limiting factors, but the remedies can be only partially effective at best, and a point will be reached where further planning is not "worth the salt."

These limitations on planning should, of course, be balanced against the benefits that can be expected. The chief benefits of using different types of plans have already been discussed in the preceding chapters, and in the next chapter the way in which the pros and cons of planning worked out in a specific company will be described. Following this review, we will turn to the question of how management decisions may best be made.

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Chapter 5

PATTERNS OF PLANNING IN AN ENTERPRISE

Need for balance

There is no formula to tell an administrator how far ahead and in what detail to plan the activities under his direction, nor will there be a single answer that will apply throughout an enterprise. Instead, for each activity various types of plans that might be helpful should be recognized, the limits that have just been discussed should be carefully appraised and weighed against the benefits that can be expected from the extensive use of each type of plan.

Thus, we should expect that some companies or departments will lay great stress on standard methods and procedures and on output standards because of the repetitive nature of their operations; in other departments perhaps it will be more important to make long-range plans and to carefully schedule activities because of the unusual importance of being right the first time; and so forth.

The preceding discussion has stressed the benefits and the limitations of various types of plans in order to assist an administrator in choosing those that will be useful to him. Figure 10 gives a list of questions that will help bring to mind the more common of these advantages and disadvantages of different types of plans.

Just because the plans for each activity deserve individual consideration does not mean, however, that it is desirable to treat each separately. As has been stressed, there is considerable interdependence among plans, and it is often necessary to move forward on several fronts together. For example, detailed scheduling is difficult without output standards, and output standards in turn are not very reliable unless standard methods have been established.

Piecemeal planning may be a lot better than none at all, but if it is not coordinated with other planning then the extent to which it can be carried profitably is probably restricted. A single department, for instance, may have its own budget, but if there is no over-all company

budgeting, the lack of data regarding related activities will probably place severe limits on the span of time it will be practical to cover.

In connection with this matter of interdependence, it is pertinent to note the tendency for benefits to accelerate or snowball. Planning in one department helps both that department and the related activities; the planning of these related activities makes plans for still other work easier and more dependable; and if the plans are built one upon the other there is a tendency to compound the benefits derived from the original planning effort.

Insofar as plans are dependent one upon the other, it is desirable that there be a balance in the extent to which each is carried. Thus, if forecasting difficulties limit the extent of sales planning, there may well be a corresponding limit on the details to which financial plans are carried. As Russell Robb has so ably pointed out, it is quite possible to carry one phase of our planning to such detail that it is really wasted effort when considered in light of the possibilities of refinements in other related phases of planning. He stressed that:

> . . . most final results [plans] are not single measurements but are the result of a combination of several quantities of different kinds and of a more or less complex computation. . . . We were taught . . . to determine in advance what influence each of these factors had in the result. We were urged then to learn our limitations in the determination of each of these factors so that we should not waste time in fruitless refinement [of some factors when corresponding refinement was not possible for other important factors.] This seems a perfectly obvious procedure, that the exercise of common sense would always lead us to follow; but in reality we are not likely to follow it unless we make a studied attempt to do so.[1]

Case illustrating the varied extent of planning

A brief description of the extent to which planning was used in a specific company will illustrate the mosaic pattern that planning takes and will also summarize the more important factors involved in deciding the extent of planning.

The Rocklyn Corporation, which will be used as an illustration, is a relatively small company with two hundred to three hundred employees. It manufactures replacement parts for automobiles and sells these through parts jobbers located throughout the United States. The president, who founded the company, is intimately familiar with all of the activities, but in recent years has taken steps to decentralize authority so that there will not continue to be "one man management."

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[1] *Lectures on Organization*, privately printed, pages 25-27.

Key Questions Guiding the Extent of Planning

Single-Use Plans (Programs, projects, detailed specifications, schedules, and the like).

1. Will the plan help get the right man at the right place at the right time, adequately supplied with instructions, materials and equipment; instead of "too little, too late"?
2. Will the plan improve coordination of several activities?
3. Will planning lower costs or increase effectiveness of the activity, through (a) anticipating trouble and (b) developing more efficient methods?
4. Will planning ease the load on hard-worked executives by
   (a) permitting more decentralization of authority to act, and
   (b) providing guides for use in control?
5. To what extent is detailed planning warranted by the reliability of forecasts of operating conditions?
6. Will planning in advance lead to unwise commitments?
7. Will executives continue to be alert to new conditions and quick to adapt their actions to them?
8. Is the activity important enough to warrant formal planning? Will the improvement in results be worth more than the added expense involved in additional planning?
9. Is there time for detailed planning, or is prompt action more important?
10. Will the planning capitalize on the abilities and ideas of individuals throughout the enterprise and build morale?

Standing Plans (Policies, standard methods, standard procedures, and the like).

1. Can administrative work be simplified by adoption of plans that will be used over and over again?
2. Will efficiency be improved by intensive study to discover the "one best way," and by insistence on the use of such standard methods and procedures?
3. Is uniformity of action important, and will standing plans help to achieve it?
4. Will standing plans ease the load on hard-worked executives by (a) permitting more decentralization of authority to act, and (b) providing an established behavior pattern to use in appraising action of subordinates?
5. Will use of standard methods simplify training and permit use of less experienced workers?
6. Is there sufficient repetition in operations to justify the effort involved in making standing plans?
7. Can operating conditions be controlled closely enough to make detailed standard methods feasible?
8. Will the expense of preparing the plans and enforcing them more than offset the benefits?

FIGURE 10. Questions an Executive Should Ask Himself About Planning.

Key Questions (Continued)

9. How serious is the inflexibility that will arise? Can provision be made for prompt modifications and exceptions when they are needed?
10. Will insistence on standing plans have a bad effect on individual initiative?

Goals (Objectives, missions, deadlines, performance standards, and the like).

1. Is there need for focusing efforts of executives toward clear-cut objectives?
2. Can plans be dovetailed more easily by identifying goals, subgoals, and sub-subgoals?
3. Will the planning process be made easier and more reliable by development of many detailed standards which can serve as building blocks in programming?
4. Will activities that do not contribute significantly to basic objectives be recognized and curtailed?
5. Will personal incentive be improved by providing standards of achievement?
6. Will control activities be more realistic and effective by closely relating planning with control standards?
7. Will prediction and internal control be reliable enough to make the goals really valid?
8. Will the benefits of having clear goals be greater than the added expense of preparing them?
9. Will the goals have to be changed so often that confusion and frustration will result, rather than improved morale?
10. Will the statement of detailed goals lead to unwarranted advanced preparation and reluctance to change?

FIGURE 10 (*Continued*).

Other key executives include a production manager, sales manager, secretary-treasurer, and chief engineer. The company is well known in a narrow field and has been financially successful.[2]

Objectives. The Rocklyn Corporation has a clear objective of offering to the trade a top-quality product and the best delivery service available. It makes a narrow line of products for replacement sale only, but seeks to fill this particular niche well. In other words, it does not seek volume sales of a low-priced product, nor has it aspired to great expansion through product diversification. Production facilities

[2] A more complete description of the Rocklyn Corporation is given as one of several comprehensive cases in W. H. Newman, *Business Policies and Management*, 2nd ed., South-Western Publishing Co., 1949.

were greatly expanded during the last war, so the company is seeking a second product line; but here again the objective will be specialization and distinctiveness.

This basic objective has been very helpful as a guide to further planning and a means of integrating policies and program. At one time or another the production department has urged mass production of only the fast-selling items, the sales department has suggested a wider variety of products, the treasurer has wanted to be stringent on credit terms. But the general objective has brought the various departments back into line and has promoted consistency of action. The objective also highlights a desirable accomplishment, and the executives of the company take considerable pride in the extent to which they have achieved it.

Policies. Policies also constitute an important part of the company's plans. There are general rules regarding the types and location of customers that will be solicited, the general level and the frequency of price changes, the types of parts or materials that will be purchased rather than manufactured, the credit terms that will be granted, the sources from which capital will be obtained, and other similar matters.

These policies save the president and the other executives a great deal of time because they do not have to decide similar issues over and over again. They are important to the decentralization that has taken place, because the president can authorize other executives to proceed with action knowing that they will follow a path he approves. They are also helpful in assuring consistency of action, which is particularly important when dealing with customers or employees, because each of them resent any favoring of the other man.

Although general policies exist there is no attempt to set up detailed policies nor to incorporate these standing plans into a manual. For example, in dealing with employees or dealing with material vendors the company has sought to be flexible, meeting each situation on its particular merit. In other areas similar problems have not come often enough to call for a clear-cut policy. Inasmuch as this is a relatively small company where communication between the executives is informal and prompt and where the executives have time to give considerable attention to individual situations, the absence of detailed policy has not been serious.

Over-all programming. A third major component of planning in the Rocklyn Corporation is its budget program. Each year a budget is prepared showing month by month the anticipated income and ex-

pense and the cash position, along with a projected balance sheet at the end of the year. In practice it has been found desirable to revise this budget at the end of the first six months.

The budget has been a very helpful device in anticipating problems and laying plans to meet them. It has provided a basis for planning production to meet seasonal needs, for determining the number of employees to be hired, temporarily laid off, or discharged, for arranging of bank loans, and for similar activities. Moreover, it has provided a base from which to make either upward or downward adjustments when there have been sharp changes in the level of business activity. Although the budget has not been used as a restrictive device (as are Congressional appropriations) it has increased the president's willingness to delegate authority to other executives because its preparation led to a general understanding as to the course of action that would be followed. The budget also is useful as a standard of performance, and thereby aids in the control process.

Budgeting in the Rocklyn Corporation is not carried beyond one year because of the difficulty of forecasting the demand for products and the supply situation, including labor conditions, availability and prices of raw materials, and similar factors. Detailed departmental budgets are not prepared because it is relatively easy to trace the effect of action in the respective departments to the company profit and loss statement; it is felt that the expense of preparing detailed programs for the different departments would not produce a corresponding benefit. During the war the company had a number of other programs, notably for expansion of facilities and for the production of war products, which were expressed in physical terms. With operations now on a more stable basis it is felt that this additional programming is unnecessary.

Projects. The company makes effective use of the project concept in dealing with special problems. For example, it has set up a special project for the study of pensions for its employees, a new method of inventory control, and possible sale of its products to truck and tractor manufacturers as original equipment (instead of replacement parts). In each of these projects two or more departments were involved, a variety of data was desired from different sources, and the abilities and available time of various individuals had to be considered.

The planning of these investigations on a project basis meant that each phase was assigned to one person and he knew what the other man was going to do and how his findings would fit into the total

picture. Thus, the actual work was delegated to several individuals and yet the total effort was coordinated and comprehensive enough to lead to a sound decision. With a few exceptions, such as the installation of the inventory control plan, the project planning was rarely carried beyond the assignment of particular parts to individuals. Mapping out in detail just what each person was to do did not offer any great benefits, and in a number of instances would have taken time that could be used better in arriving at a decision promptly.

Standard methods and procedures. The departments of the Rocklyn Corporation differ in the extent to which they use standard methods and procedures. In the production department there is a standard method for the operation of each of the major pieces of equipment. The existence of such standard assures that work will be performed with reasonable efficiency; it is possible to establish output standards, and quality is generally maintained; also the existence of a standard method makes the training of new employees easy.

It is perhaps significant, however, that these standard methods reflect primarily the best-known industrial practice and are not the result of detailed motion study by Rocklyn Corporation itself. Consequently, the standard method is not as specific as is found in some shops. Executives of the Rocklyn Corporation point out that a considerable part of the work is paced by existing machinery, so that detailed motion study would increase output by a relatively small percentage; in addition, there are few operators performing any single job and the expense of a detailed motion study could not be spread over a large number of machines or activities. Ideas gleaned from equipment manufacturers, trade magazines, and contacts with other manufacturers enable the company to keep up with the best practice but not to originate a change.

In the office, standard procedures for accounting and credit work have been established, as well as for the receipt and disbursement of cash. These procedures assure that the necessary action will be taken and that it will be uniform on similar transactions. Also it is possible for relatively inexperienced clerks to perform most of the work, even though they do not understand the system well enough to handle unusual transactions. No attempt has been made to establish standard methods for operating office equipment because of the lack of volume of any one type of operation. Girls who operate typewriters and calculating machines are presumed to have learned a standard method in high school or business college, but the company allows them to

follow any method they wish so long as a reasonable amount of work is accomplished.

In the sales department even less attention has been given to standard methods and procedures. Most of the sales are made by sales agents who often sell two or three other lines of products and are not technically employees of Rocklyn Corporation. One result of this arrangement is that the company has less control over the activities of its sales representatives. Sales techniques that the company would like to make standard have been suggested, but recent analysis of the actual practice indicates that frequently these suggestions are ignored. Until the company can devise some better means of controlling the individuals concerned there is little point in developing standard selling methods.

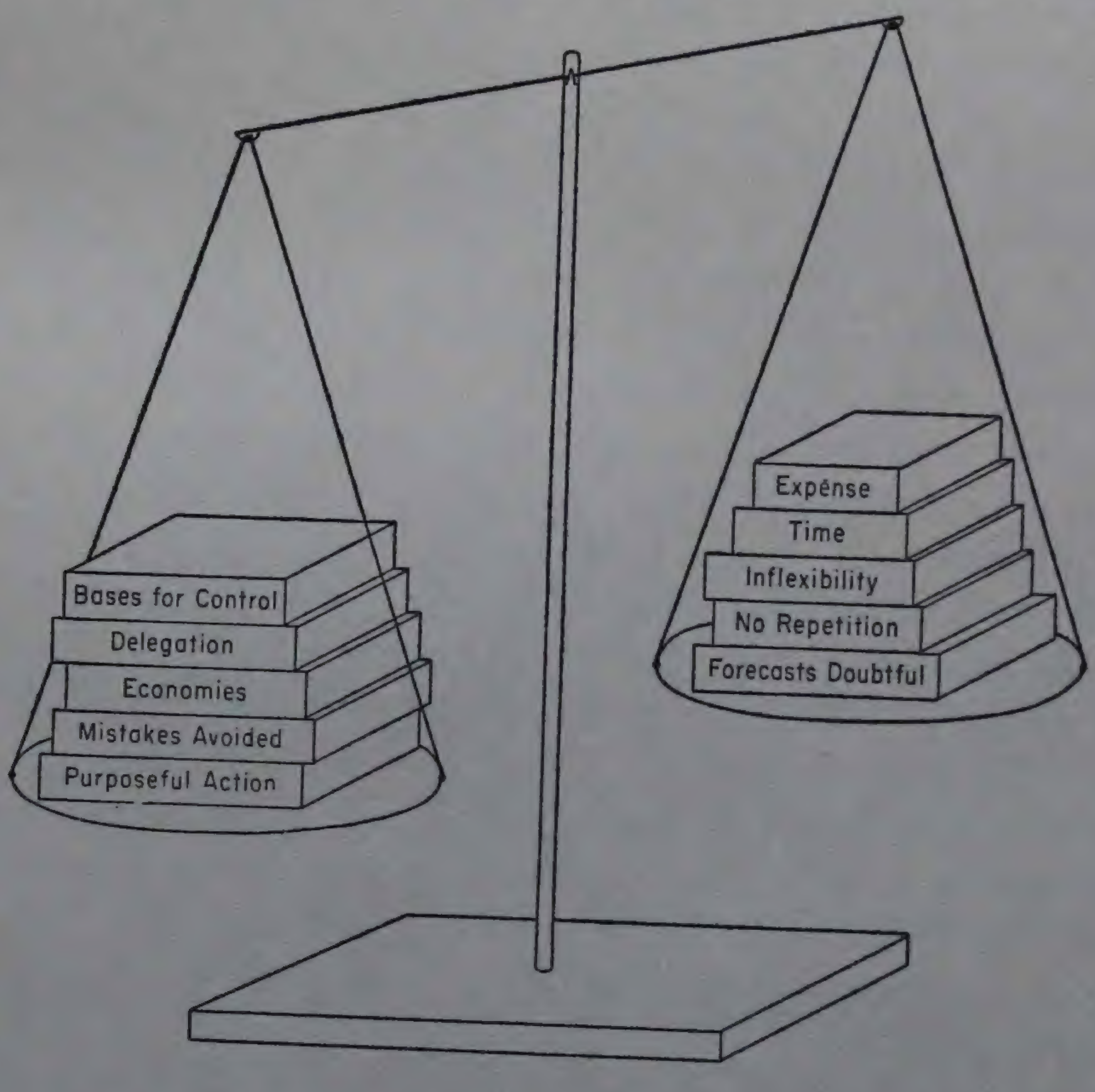

FIGURE 11. Pros and Cons of Detailed Planning.

Detailed single-use plans. Production scheduling is the only detailed planning for nonrepetitive operations that is done formally. A majority of the employees and most of the company equipment are used for production, and delay in this department would cause a considerable loss of both man hours and machine hours. Therefore, the quantity

needed of each style and size of product is worked out in advance, and then the operations necessary to manufacture those lots are determined. With these data in hand, work is assigned to individual machines for approximately a month in advance. If some particular job lot is delayed or if a rush order is received, the schedule must, of course, be adjusted, but this can be done with some knowledge of its effect on other work that is already scheduled. As a result of this detailed planning most delays can be avoided, the personnel needed to operate the equipment can be scheduled in advance, and plans made for either layoffs or special maintenance work during the slack time. This careful scheduling also reduces the inventories that need be on hand in order to insure prompt deliveries to customers. Incidentally, it would not be possible to schedule very closely if the company did not have output standards based on standard methods.

There is, of course, considerable planning of nonrepetitive operations done by various individuals in laying out their own work, but the company has made no systematic effort to influence the extent to which this is done. Outside of the shop the work is quite varied and the staff relatively small, so the executives do not feel that it is worth their time to plan out just how each individual should perform each operation. Instead they allow the employees to use their own initiative, and then if supervision indicates that help is needed, informal contacts permit suggestions by the executive as the work progresses.

Goals and performance standards. Clear-cut performance standards have been established only for the operating men in the shop. Here output standards have been given careful attention, inasmuch as the company has an individual and group incentive plan based on a comparison of actual output with standard output. These output standards are also useful in estimating costs and in production scheduling. In addition, there are clearly defined quality standards, which, of course, are necessary in view of the company's over-all objective of selling a top-quality product.

Mention has already been made of the budget and of the production schedule, which can be readily translated into goals. Aside from these and the performance standards of the shop, however, the Rocklyn Corporation made very little use of the goal concept in its planning. A discussion of the basis upon which to distribute a year-end bonus recently brought to light a lack of goals for most of the employees outside of the production department. It was recognized that the comparison of the actual results with the budget was inadequate,

because sometimes the forecasting was unsatisfactory and for most employees the budget does not reflect their entire performance. For example, the budget does not show promptly the effects of a poor service to customers or bad relations with other outsiders. Much more important than the absence of a basis upon which to distribute bonus is the loss of a positive direction and incentive that goals can provide for the individual. The executives of Rocklyn Corporation are aware that considerable improvement in their planning can be made in this particular area.

The planning of the Rocklyn Corporation has been presented not as an ideal but as representative of a typical, successful, small corporation. To attempt to follow this or any other single enterprise as a model might well be disastrous. Each enterprise must determine the type and the extent of planning that fits its particular needs. The description of Rocklyn Corporation planning does provide a review of some of the types of planning that may be used and some of the advantages and limitations that may result. Perhaps it has also served to emphasize that these planning concepts are practical working tools of the administrator, and not merely abstractions regarding the social processes of group living.

Good planning—a practical goal

One further point may be in order. A person who contemplates all the planning that is necessary to administer an enterprise of any size may be overwhelmed at the variety and complexity of decisions and interrelations that are present. Fortunately, these decisions can usually be made over a period of time. Almost invariably there are a number of individuals taking part. It has been noted that the use of standing plans (policies, standards, methods and procedures, and the like) greatly simplifies the process, and experience frequently provides a useful guide in developing single-use plans.

Also, once a program is developed that will accomplish a given mission the executive can give most of his attention to those phases of actual operations that may deviate from the plan. In other words, it may be desirable to take a large range of factors into account in formulating plans, but it is unnecessary to review all this information every day the plan is in the process of execution. Wallace Clark has pointed out:

> . . . If an executive must analyze the whole situation and take all of these things into consideration whenever he receives a new figure or report, the

task becomes burdensome and is sure to be neglected, although he knows he cannot afford to lose sight of any of the factors.

. . . The most effective method is for him to lay out a plan which, if adhered to, will produce the results at which he aims. All the variables which could be foreseen have been noted, so when actual progress differs from what was planned, it is evident that something has happened which was not expected and which, therefore, requires attention. . . . The executive is thus relieved of the necessity for spending time on those phases of his business which are making satisfactory progress and is left free to concentrate his attention on those things which are not moving at the desired rate. . . . He watches the rate of flow of the forces which are beyond his influence and manipulates those which are within his power to control, aiming at the balance which will be to the best interests of his company.[3]

Summary

Every administrator, from the top executive of an enterprise to the supervisor of a small department, must do some planning. He will do a better job of planning if he understands clearly the different types of plans that he might use, the situations in which each type of plan is likely to contribute to the efficiency of the enterprise, and how such plans will enable him as an individual to be a better, and probably less hard-worked, administrator.

The purpose of the last four chapters has been to describe and illustrate a range of plans that have proven to be useful in a variety of situations, and also to indicate the advantages and the limitations that an administrator may expect if he employs them. These are basically simple concepts, and yet in practice thousands of executives have fumbled their planning work because they were not aware of the alternatives available to them.

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[3] *Executive Planning*, Wallace Clark & Company, page 9.

Chapter 6

THE PROCESS OF PLANNING

The preceding discussion of types of plans available to the administrator has said very little about how he arrives at the decisions. In addition to careful thought as to the structure of plans that will be useful, it is also vital that the method of arriving at those decisions be sound. This and the next chapter are concerned with the *how* aspect of planning.

For a number of activities there is a considerable body of literature dealing with the *how* of planning. Motion study, procedural analysis, plant and office layout, market analysis, advertising-copy testing, employee-attitude surveys, cost studies, and other fields all have their body of literature on "how to do it." Generally these discussions contain an elaboration on the basic analytical approach to business problems, check lists of points to be considered in the particular area, and special techniques for developing useful data (motion studies, statistical analysis, interviews, et cetera). They may be exceedingly helpful to the person who is facing a managerial problem in the particular area covered.

Inasmuch as we here are concerned with the administrative process as a whole, these various techniques serve more as case studies from which to develop principles regarding planning that will have widespread application. This approach has two distinct advantages, even for those who are already familiar with one or more of the specific planning techniques. First, there is always the danger that one will become so intrigued with the ratios or charts or formulas used in specific techniques that other, more-general aspects of planning will be overlooked. Second, there are many areas of administrative decisions for which no appropriate guidebook can be found. A basic technique for arriving at a plan is, then, another of the important tools in the kit of every good administrator.

Discussion of the technique of planning will be divided into three

general parts. In this chapter we will consider (1) the analytical approach to planning, which is applicable to virtually every type of administration, and (2) means of simplifying and organizing the planning tasks of an enterprise. Chapter 7 will deal with (3) a number of special considerations that every administrator should bear in mind when making plans.

Analytical Approach to Planning

Probably the easiest way to make plans is simply to follow previous experience or to copy the actions of someone else. Using this approach, the administrator goes back into his experience or that of his company and finds out what action was taken in a somewhat similar circumstance. If the result was satisfactory, the same course of action is followed; if the result was unsatisfactory, some other plan will be sought. This is done with little regard to the reason why the past action was successful or unsuccessful and no particular thought as to changes in the operating situation. Obviously, such a technique has little of the dynamic or creative element in it; it may result in the rejection of good ideas that were not given a fair trial; and, since operating situations do change sooner or later, the enterprise will run into difficulty.

In the follow-the-leader type of planning, an executive attempts to have someone else do his thinking for him. Some apparently successful individual or enterprise is singled out, and if he raises his prices, reduces his inventory, establishes a public relations department, fights with the labor union, or installs new equipment, then the executive tries to do likewise. This technique when blindly followed also leads to difficulty; the leader may not always be right, and even if his action is desirable for him it may not fit your situation.

Both of these approaches to planning tend toward management by tradition and are contrary to the best practice of the present day. Past experience within the enterprise and the experience of other individuals should, of course, be given very careful consideration; but this information should be subjected to analysis and included with other evidence before major decisions are made. While many people are still lured into the path of following past experience or the example of some other individual, there is now a widespread recognition of the advantages of an analytical approach to planning.

Examples of analytical planning

Taylor, the pioneer. Among the men who ushered in a new approach to administration a generation ago, one of the most striking and influential was Frederick W. Taylor. Some knowledge about the man helps to emphasize the ideas he stood for.

From his boyhood Taylor demonstrated a bent for devising more efficient ways of doing things. For example, he designed a special tennis racquet for himself. Being small of build he figured that tall opponents had a distinct advantage over him, and to overcome this handicap he made a racquet which was longer than normal and had a special curve in the throat. It was odd looking, indeed, and no such racquets are on the market today, but it must not have been too bad because he and his partner won the national doubles championship one year.

It was in his golf, however, that Taylor really let himself go. He created a wide assortment of clubs, many of them novel in design, to overcome various playing difficulties on the course. One such club was a Y-shaped putter which was suspended from the shoulders and swung between the legs. By holding his shoulders steady, he was sure of the direction in which the ball would go and could then concentrate on how hard he would hit it. Incidentally, this particular club was so novel (and good) that it was ruled off the course. When one pictures Taylor leaving the clubhouse, that citadel of conservatism, with perhaps an extra caddy or two to carry his paraphernalia, we see a man who certainly wasn't tied down by tradition. He also experimented with the care of golf greens, and before he was done he probably knew more about taking care of golf greens than any other man in the country. In his avocations as well as in his work he was challenging, measuring, and inventing.

Taylor was forced to give up the study of law because of difficulty with his eyesight, and became an apprentice machinist and pattern maker. As long as he was employed as an apprentice and journeyman he made no special effort to reform shop methods. But shortly after he was made foreman, and thus responsible for seeing to it that the men under him did a fair day's work, he started to make changes in shop management that were as novel as his putter on the golf course.

Taylor knew that the men were soldiering on the job; he tried with typical success the then customary methods of ordering, pleading,

badgering, and threatening to get the men to turn out more work. Unsatisfied with the results, he tried a new plan, namely, a task-and-bonus scheme. Simply stated, the idea was that if the men would turn out a fair day's work they would be paid a 20 per cent bonus, and a proportionately larger sum for any output above the standard. But this required knowing what a fair day's work was, and Taylor was not willing to accept past experience as the standard.

The amount of work a man could reasonably be expected to turn out depended upon the materials with which he worked, and this led to material standardization and quality control; it depended upon the way he performed his work, and this after years of investigation led to the classic study on the art of cutting metals; it depended upon having new work immediately available for the workman as soon as he finished the job he was on, and this led to careful scheduling and internal transportation; it depended upon having the right man selected and properly trained, and this led to certain phases of personnel work; it depended upon having machinery in proper running condition, and this led to programs of preventive maintenance; it depended upon having the proper tools in good condition, and this led not only to a centralized tool room but eventually to the invention of a high speed cutting steel (the patent for which Bethlehem Steel Company later paid $100,000).

Once management brought these conditions under control, it was possible for the worker who cooperated with the plan to double or treble his daily output to the benefit of both himself and his employer. We see in Taylor a man whose unwillingness to accept the customary way of doing things led him by successive steps from his original problem of supervision into such things as the invention of a new steel.

It was the mechanical inventions that first won fame for Frederick Taylor. Following a demonstration at an exposition in Paris in 1900, visitors came from all over the world to the Bethlehem shops where he served as superintendent (until his revolutionary ideas and uncompromising insistence upon them brought on a clash with top management). Taylor, however, insisted that these were but specific illustrations of a more basic approach to management problems. The important thing, he said, is not the particular techniques that happen to apply in a machine shop, but the attitude of mind of the executives. That attitude, that approach, which has been called scientific management, can well be applied to problems of administration in any field.

Army doctrine of planning. The analytical approach to planning is

universal in its application, just as Taylor predicted. Turning to an entirely different field of activity we find army men talking of the "estimate of the situation." This is the mental process the officers are

Commander's Estimate of the Situation

1. MISSION.—Assigned mission. (If it is multiple, determine priorities. If the estimate is to decide on the best line of action to accomplish an intermediate task which is necessary to the accomplishment of the mission, such task should be deduced in this paragraph.)
2. THE SITUATION AND POSSIBLE LINES OF ACTION.
   a. Considerations affecting the possible lines of action.—Determine and analyze those factors of the situation which will influence your choice of a line of action as well as those which affect the capabilities of the enemy to act adversely. Consider such of the following and other factors as are involved: relative combat power, reinforcements, time and space, terrain, dispositions, status of supply and evacuation, weather.
   b. Enemy capabilities.—Note all the possible lines of action within the physical capabilities of the enemy which can affect adversely the accomplishment of your mission.
   c. Own lines of action.—Note all practicable lines of action open to you which if successful will accomplish your mission. (If there is only one such line of action proceed directly to the decision.)
3. ANALYSIS OF POSSIBLE LINES OF ACTION.—Determine the probable effect of each enemy capability on the success of each of your own lines of action.
4. COMPARISON OF OWN LINES OF ACTION.—Weigh the advantages and disadvantages of each of your lines of action and decide which line of action promises to be the most successful in accomplishing your mission.
5. DECISION.—Translate the line of action selected into a concise statement of what the force as a whole is to do, and so much of the elements of when, where and how as may be appropriate.

Note

Any or all of the items in the estimate may be either considered mentally or reduced to writing.

Source: War Department, *Staff Officers' Field Manual, FM 101–5*, Section IV.

FIGURE 12. Army Method for "Estimating the Situation."

expected to go through in arriving at a plan of action. The recommended steps in making an estimate of the situation are briefly summarized in Figure 12, which is taken from a basic army manual.

Although expressed in army language and referring to a military situation, the steps recommended have general applicability. These

ideas—clarification of purpose or objective, the assembling of all pertinent information, the analysis of possible alternative courses of action, and, finally, a decision as to what is to be done—are as applicable to running an insurance company or a Y.M.C.A. as they are to an army. Incidentally, the army estimate of the enemy's capabilities is parallel to forecasting by the business enterprise; in each instance the administrator tries to anticipate what will happen and adjust his operations accordingly.

Training-within-industry program. During the last war the officials responsible for the production of war supplies recognized that increasing total industrial output was even more important than cutting back the manufacture of automobiles, electric refrigerators, and many other types of civilian goods. As one step toward expanding output it was decided that the best-known methods of management should be identified and then taught to executives charged with getting out essential products. Representatives from the best-managed companies in the country were assembled and asked to prepare such a program. The training-within-industry movement, with its job-methods, job-instructor, and job-relations training programs, was a result of this effort.

Here were some of the best brains in the country trying to identify the essential aspects of management that would have general application in a wide variety of enterprises. They selected a set of ideas with regard to planning, and these were printed on a card measuring two and one-quarter by four inches. The ideas on this card form the essence of the analytical approach to planning, and they were used as the basis of a brief course to train executives and supervisors in the improvement of the operations under their direction. Great care was taken to make the language simple and forceful so that it could be readily grasped by thousands of production executives, regardless of their educational background. This kernel of the analytical approach as seen by the training-within-industry group is reproduced in Figure 13.

This particular training-within-industry outline is directed toward the improvement of standing plans in industrial establishments and, like the army estimate of the situation, needs to be rephrased to fit other fields of administration. This was done, for example, at the Signal Corps depot in Philadelphia for application to its office operations. Incidentally, the depot made a check of the results from the use of the approach, and found that analysts who had been given a

How to Improve Job Methods

A practical plan to help you produce GREATER QUANTITIES of QUALITY PRODUCTS in LESS TIME, by making the best use of Manpower, Machines and Materials, now available.

STEP I–*BREAK DOWN* the job.

1. List all details of the job exactly as done by the Present Method.
2. Be sure details include all:
   –Material Handling
   –Machine Work
   –Hand Work

STEP II–*QUESTION* every detail.

1. Use these types of questions:
   WHY is it necessary?
   WHAT is its purpose?
   WHERE should it be done?
   WHEN should it be done?
   WHO is best qualified to do it?
   HOW is the "best way" to do it?
2. Also question the:
   Materials, Machines, Equipment, Tools, Product Design, Layout, Work-Place, Safety, Housekeeping

STEP III–*DEVELOP* the new method.

1. ELIMINATE unnecessary details.
2. COMBINE details when practical.
3. REARRANGE for better sequence.
4. SIMPLIFY all necessary details:
   To make the work easier and safer:
   –Pre-position materials, tools and equipment at the best places in the proper work area.
   –Use gravity-feed hoppers and drop-delivery chutes.
   –Let both hands do useful work.
   –Use jigs and fixtures instead of hands for holding work.
5. Work out your idea with others.
6. Write up your proposed new method.

STEP IV–*APPLY* the new method.

1. Sell your proposal to your "boss."
2. Sell the new method to the operators.
3. Get final approval of all concerned on Safety, Quality, Quantity, Cost.
4. Put the new method to work. Use it until a better way is developed.
5. Give credit where credit is due.

Bureau of Training–War Manpower Commission

FIGURE 13. T.W.I. Steps in Methods Improvement.

fifteen-hour training course and then followed the steps carefully secured an average improvement in efficiency of 30 per cent. Equally impressive results have been reported in other types of activity.

The approach is simple indeed, but it is not easy. For example, most executives or analysts are not willing to take the trouble to write down the present method and the proposed new method, despite the fact that the experiences of men who designed the outline indicate that this is a highly beneficial practice. Also, many people will not view objectively and critically each step in an operation; perhaps unconsciously they assume that there is no need to be that thorough in their questioning.

Valuable as the specific details of the training-within-industry plan may be for some situations, the outline is given here because it typifies the attitude of mind vital to an analytical approach to planning anywhere.

Essential features of analytical planning

Basic steps. The preceding examples of an analytical approach to planning, and numerous other discussions of scientific management, research methods, administrative analysis, and kindred topics all have a similarity in the basic steps that are recommended. They differ greatly in emphasis, wording, and operational detail, but the common core of ideas can be summarized as follows:

1. Clarify the problem. The purpose or the goal should be clearly set forth, and then the operating situation should be reviewed to determine the difficulties in reaching it. In everyday language the administrator asks, "Where do I want to go and what am I up against?"

2. Determine the alternatives and the key factors in selecting the best one of these. Typically, several possible solutions to the problem are open to the administrator. He must identify possible advantages and disadvantages of each so as to ascertain what facts he needs in order to make a final choice.

3. Get the facts. This may involve accounting studies, economic forecasts, statistical analysis, experimentation, interviews, questionnaires, and other pertinent sources of information. Care must be taken to appraise the accuracy of the information and the possibility of bias, particularly in personal opinions.

4. Analyze the facts. The facts must be sifted, combined, and

related so as to throw light on the choice of action to be taken. In other words, separate the wheat from the chaff and answer time and again the question, "So what?"

5. Decide on action to be taken. There is no real plan until an authoritative decision is reached. Sometimes several individuals participate, either recommending, making final judgment, or approving a proposed plan.

6. Arrange for execution. Supplementary and explanatory instructions are needed to make the decision realistic. Timetables are needed, authorizations must be prepared, and plans laid to sell the idea to those affected by it.

In actual practice these steps tend to overlap. For example, additional alternatives may be discovered in the process of gathering facts; it is quite desirable to do some analysis of the data while it is being compiled; developing acceptance for a new plan may be started before it is finally approved; arranging for execution of course shades off into direction; and so forth. Also, some of the steps may be more important in one situation than in others. Nevertheless, each of the six steps will be taken in one form or another every time planning is approached in an analytical manner.

Distinguishing characteristics. There are a number of characteristics that are found in the successful application of the analytical approach. There must be an objective view, a willingness to set aside preconceived ideas and to draw new conclusions from the data at hand. As has already been emphasized, *analysis*—the breaking of the problem down into its parts and a thorough examination of each—is a vital characteristic.

The analytical approach also calls for some *inventiveness;* certainly Taylor, Gilbreth and others of the pioneers showed considerable originality, and it is typically assumed that out of the detailed analysis of the facts new relationships will be seen and new solutions will be found. Of course not all plans will be novel, but there should be present an element of creativeness.

Still another characteristic is *salesmanship;* the zeal of the planner, the participation of the operating group in the preparation of the plan, the demonstration that all angles were carefully considered, and the conviction that comes with knowing you're right and being able to explain why, all contribute to the acceptance of the plan.

It may be noted that this objective, analytical, creative, selling

approach to planning is in sharp contrast to the autocratic and traditional approach.

Place of forecasting and of experimentation

Mention should be made of both forecasting and experimentation because each plays a very important part in certain planning situations. Both are primarily concerned with the third step listed above, getting the facts.[1]

A great deal of administrative planning is concerned with business or other social situations, the future of which is highly variable. Instead of clear-cut facts, the best we have are opinions and predictions of what the operating conditions will be. Consequently, in planning it is necessary to make the best possible forecast of future conditions and use these forecasts as "facts" in making the plans, recognizing all the while that the forecast may prove to be inaccurate. In military planning the "intelligence" section is in somewhat the same position, being responsible for information regarding the enemy's situation and capabilities and for predicting what he is likely to do.

It is beyond the scope of this discussion to consider techniques for forecasting. That is a complex problem both in methodology and in the diversity of factors that should be considered. Some indication of this complexity is given in the accompanying outline of topics that should be considered in appraising the outlook for sales and profits of a company.

Factors in Appraising Outlook for a Company [2]

I. Outlook for the Industry
   A. Demand for Products or Services of the Industry
      1. Usefulness of and desire for products
      2. Stability of desire for products
      3. Ability of customers to pay for products
   B. Supply of Products or Services
      1. Capacity of the industry
      2. Labor costs

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[1] The forecasting discussed here is concerned with predicting future operating conditions. Another type of foresight vital to good planning is picturing in one's mind the actions that are necessary to produce desired results under the conditions that have been forecast. This ability to visualize how contemplated actions will work out calls for realistic imagination; without it any planner is lost.

[2] For a discussion of this approach to company forecasting see W. H. Newman, *Business Policies and Management*, 2nd ed., South-Western Publishing Co., 1947, Chapter 2.

3. Material costs
4. Taxes and other operating costs

C. Competitive Conditions in the Industry
1. Nature of companies
2. Organization of the industry
3. Government regulation

II. Position of the Company in the Industry

A. Market Position of the Company
1. Relation of company sales to those of industry and leading competitors
2. Standing of company products
3. Reputation of company in major markets

B. Cost Position of the Company
1. Comparative location
2. Relative efficiency of equipment
3. Unique cost advantages

C. Special Competitive Considerations
1. Relative financial strength
2. Ability of company management

The prediction of sales volume, prices, action of competitors, material supply, labor conditions, governmental regulation, money market changes, international war and similar factors is difficult, to say the least. Yet, such is the nature of some of the facts with which the administrator must deal and, as already noted, the unreliability of these forecasts may place distinct limits on the extent of planning.

In some circumstances where the facts are not clear cut it may be practical to conduct experiments. Experiments may be undertaken for two somewhat different purposes. They may be an essential part of some investigation that seeks to demonstrate a general principle, or experiments may be used to test out a proposed course of action. In the first instance, the purpose is scientific investigation; in the second, the purpose is engineering or the application of general principles. Rarely in the process of administration is it practical to wait for experimentation to demonstrate a principle, which in turn must be applied to the specific situation.

Experimentation is much more likely to be used to test on a small scale some major plan. The sales manager may experiment with a new package in a test market; the office manager may try out a new piece of equipment for a short time; the production manager may experiment with a new raw material or a new process; even the personnel director may experiment with the use of women workers in positions formerly held only by men. In situations such as these, experiments can add materially to the facts upon which a major decision is based. Unfortunately, there are a great many circumstances in which such

trial runs are too expensive, too slow, upsetting to regular operations, or impractical for other reasons.

Simplifying the Task of Planning

The planning procedure outlined in the preceding section imposes a very heavy burden on the administrator. Any single plan, and certainly a broad program, raises a wide variety of considerations, each of which deserves thorough, analytical investigation. Some of the complexities of military planning were brought out by General Schwan years ago when he was explaining to Congress the need for a general staff. It will be recognized that the following quotation is merely suggestive of the many factors that need to be considered in real analytical planning.

> It is easy for a President or a general acting under his direction, to order that 50,000 or 100,000 men proceed to Cuba and capture Havana. To make an order which has any reasonable chance of being executed he must do a great deal more than that. He must determine how many men shall be sent and how they shall be divided among the different arms of the service, and how they shall be armed and equipped, and to do that he must get all the information possible about the defenses of the place to be captured and the strength and character and armament of the forces to be met. He must determine at what points and by what routes the place shall be approached, and at what points his troops shall land in Cuba; and for this purpose he must be informed about the various harbors of the island and the depth of their channel; what classes of vessels can enter them; what the facilities for landing are; how they can be defended; the character of the roads leading from them to the place to be attacked; the character of the intervening country; how far it is healthful or unhealthful; what the climate is liable to be at the season of the proposed movement; the temper and sympathy of the inhabitants; the quantity and kind of supplies that can be obtained, and a great variety of other things which will go to determine whether it is better to make the approach from one point or from another and to determine what it will be necessary for the Army to carry with it in order to succeed in moving and living and fighting.[3]

If each time the business executive, the army commander, or the public administrator laid out a course of action he had to consider all alternatives of each particular act and compile information on the wide variety of things that might affect the choice of these alternatives, the task would be staggering. In practical application there must be some means of simplifying the task. Four devices will be suggested here; the use of standard parts, planning within recognized limits, use of the institutional mind, and organization for planning.

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[3] O. Nelson, *National Security and the General Staff*, Infantry Journal Press, 1946 page 57.

Use of standard parts

Just as the use of standard parts greatly simplifies manufacturing operations (in fact, is prerequisite to modern production) so, too, can standard parts simplify planning. The planner takes predetermined standards, such as output per man-hour, pounds of material per unit of product, sales calls per day, advertising expense per month, percentage of bad-debt loss, normal seasonal fluctuation in sales, plant and equipment required per thousand units of output, investment in accounts receivable per dollar of sales, and uses these standards in preparing his new plan. B. E. Goetz calls these the "building blocks of managerial planning and control." [4] In making a particular plan the administrator often uses a variety of these standards and simply assumes that they are correct.

In a similar way the administrator assumes that standard methods and standard procedures will be followed. This is a very important aspect of military planning, where "standing operating procedure" is developed and practiced for years ahead of time; then, in an actual maneuver, the commander concentrates on the strength of his various forces and the place and time he will use them, assuming all the while that the detailed action will be governed by the standing plans (and indoctrination). Likewise, the sales manager and production manager assume a customary behavior pattern as they lay out their plans. Clearly, the more an administrator can use such performance and operating standards the easier is his planning task.

The use of standard parts does not preclude a very thorough examination from time to time of the parts themselves. While at a given moment the practical procedure for an administrator is to assume that the output standards and operating standards are correct, he may find himself in serious difficulty if this assumption is not true. Therefore, it is highly desirable that these detailed plans be developed by careful analysis prior to the time that they are used as building blocks in a broader plan. Thus, we find support for those who believe planning should be approached "from the bottom up," as is strongly advocated in the following statement by Wallace Clark:

> Experience has shown us that it is far better to begin at the bottom in installing methods of management. For example, in planning it is not wise to start with general programs for the plant and move down to the schedules for the individual shops, because that method becomes too theoretical and does not win the understanding and support of the shop foremen. It brings more effec-

[4] *Managerial Planning and Control*, McGraw-Hill Book Co., 1949, Chapter 5.

tive and lasting results to begin the installation of planning methods down in the shops themselves, starting with the foremen and helping them plan the work to be done on their machines the following day. A few well qualified men are trained to do the planning there, where they learn accurately the capacity of the machines, the capabilities of workmen and see at firsthand the difficulties which face the foremen.[5]

It may not be practical to start at the bottom and work up when a plan is needed before there is time to complete the numerous detailed studies, or when operating conditions cannot be controlled, as they can be in a production shop such as the one discussed by Mr. Clark. Nevertheless, if it has not been practical to develop the operating standards ahead of time by careful analysis, then the administrator must either accept the possibility of error in his planning, or give up the benefits of this simplifying method.

Planning within recognized limits

Another way to simplify the planning task is to work within certain recognized limits or frames of reference. For instance, the executive accepts the mission or objective set for him by his superior; he accepts the company-wide policies in accordance with which he is expected to operate. An executive may also be told to make certain basic assumptions regarding the sales volume, price and availability of materials, labor conditions, and installation of new equipment. These objectives, policies, and basic assumptions clearly limit the plans he may adopt, and to that extent his planning task is simplified.

An executive in the middle or lower rank of management should seek to obtain such limits on his planning as a practical means of simplifying the task. It is entirely proper for him to discuss the validity of the limits at the appropriate time, but once they are established they should be regarded as fixed points as far as his planning is concerned. Even the top-level executive should make use of this same simplifying device. Objectives, policies, major forecasts should be subject to periodic review; but, as a means of conserving time and promoting orderly thinking, once a decision has been made on such matters it should be used as a fixed frame of reference until new evidence indicates a need for a significant change.

The institutional mind

It is not necessary or desirable that an administrator start from scratch in developing plans, except perhaps in a new enterprise that

[5] *Reserved-Time Planning for Production*, Wallace Clark & Company, pages 5-6.

has not yet developed any traditions, policies, or experience. A business concern, like a university or a city, is a social entity separate from the persons who hold executive positions at any given time. It has going-concern value, not only in its reputation with customers, employees, bankers, and material suppliers, but also in terms of its past experience and existing plans. There are established relationships among the various departments and understanding as to the division of work and need for exchanging current information.

The task of planning can be greatly simplified by relying on the records and accumulated wisdom that have developed in an established company. H. S. Person has termed this aspect of an enterprise "the institutional mind."

> This mind is independent of the personal minds of owners and managers, and of other individuals who may come and go, in whose collective activities the institutional mind expresses itself. This institutional mind has its powers of perception (investigation, research, experiment), of memory (records), of reasoning (analysis and comparison), and of design (planning and arrangement). Its life is coexistent with the life of the enterprise, and it can think and arrange affairs with that perspective made possible only by such characteristics. It has capacity to think in terms of experience larger than that which comes to any individual, to define distant goals, to arrange highly efficient ways and means of attaining them, and to pursue these distant ends consistently, yet with a flexibility which permits adjustment to changing conditions.[6]

The wise administrator makes full use of this institutional mind. When planning, he usually takes advantage of records and experience, solicits the opinions of other executives, recognizes the division of labor, and accepts many of the traditions and policies. He may wish to make changes, to be sure, but it is a simpler task to undertake the modifications of a going concern than to start out as though the business did not exist.

Organization for Planning

The planning necessary in a medium- or large-size enterprise far exceeds the capacity of any single executive. As we have seen, many plans of various types are needed, and for each of these the six steps outlined on pages 88 and 89 should be taken. Obviously, this planning task must be shared by several people.

Organization deals with the allocation of work among executives and other employees, and one very important part of this allocation is the assignment of planning duties. Organization is also concerned

[6] *Advanced Management*, December, 1945, page 152.

with allotment of responsibility for direction and control, and of course with responsibility for actual operations. Nevertheless, a crucial issue throughout the entire organization structure is who is to do each part of the planning.

The whole process of organizing is analyzed at length in Part II. The need for special provisions for planning will be examined, as well as some of the pitfalls and limitations of these arrangements. There is no need to repeat that discussion in the present chapter, but it may be helpful to briefly review the chief arrangements for planning so that the relationship between the planning process, discussed here, and organization will be clear. Important in this regard are (1) delegation and decentralization, (2) use of staff assistants and divisions, and (3) joint participation in planning.

Delegation and decentralization. The simplest way for an executive to spread the task of planning is by delegation to his operating subordinates. These men are already involved in carrying out the work, and it is natural to turn to them for help with the planning.

An operating subordinate may take part in planning in several ways. At the least he can help his boss clarify the problem, think of alternatives, or gather facts needed to make a decision. This may start as "consultative direction" (see Chapter 21), and later be formalized as a regular part of the job. At the other extreme, large segments of the planning may be assigned *in toto* to the subordinate, and he in turn may redelegate part of this work to men under his direction. Under this arrangement the senior executive usually sets the objectives, establishes major policies, and reserves final approval of major programs; the more detailed planning within these limits is done by men down the line.

Just how far this delegation and redelegation of planning should be carried is the big issue in decentralization, discussed in Chapter 12. The degree of decentralization does not have to be uniform for all departments nor for all subjects. A sales manager, for example, may himself decide on the time and prices at which a new product will be offered, but delegate all advertising planning to his sales-promotion assistant and planning for direct selling to his branch managers. At the same time, the treasurer may insist that credit can be granted to purchasers of the new product only if he gives his personal approval. In each instance the optimum degree of decentralization must be decided.

When planning is shared by means of delegation to operating sub-

ordinates, no special divisions are created. The departments and divisions responsible for "doing" are also used for some of the planning. The major questions are where in the chain of command should the various kinds of decisions be made, and what help in this decision-making should be provided by subordinates and superiors. At least some planning is done at every level.

Use of staff assistants and divisions. Under some conditions, an executive with heavy planning responsibilities may not wish to delegate these to operating subordinates. He may believe that the planning is too important, that it calls for special knowledge, or that a broad perspective is required. Perhaps some plans such as accounting procedure or personnel policy should be consistent throughout the enterprise, and hence should be decided at one point for all departments. For reasons such as these he decides to centralize a large segment of the planning; but, he cannot do all this planning work himself

Staff is used to help the executive in such situations. A staff assistant can greatly simplify the planning task of an executive. He may help locate problems, draw tentative conclusions, prepare letters and instructions; in fact, he may do all of the planning on a particular problem except the final approval. The conditions favoring such use of staff and the staff's inherent weaknesses are examined in Chapter 11.

In large enterprises or departments with complex planning problems the staff idea is expanded to the establishment of a number of divisions, each of which works on plans in a special area. Thus, there may be a market-research division, a sales-promotion unit, a product-development section, an industrial-engineering group, and other specialized units doing staff work. These units may have some direction and control duties, too, but their major function is to help in one way or another with the planning of operations related to their specialty. They can provide the concentrated attention, special knowledge, and skill that the busy operating executives cannot give.

One of the best ways to regard staff assistants and staff divisions is as extensions of the thinking capacity of the executives they serve. They do planning work that the executive might do himself if he had the time. In order to secure an integration of planning, which has been stressed in earlier chapters, the findings and recommendations from the staff typically flow through the executive who is authorized to make the final decision. He can then quickly make a plan that is based on a thorough study by his aides.

Joint participation. Rarely are plans made by a single individual

working alone. The executive or staff man who is developing the plan almost always consults with a number of other people. He gets advice on what might be done, seeks facts from many sources, checks his tentative plan with those who will be affected, and before he is done probably will modify his initial idea considerably.

This joint participation in planning is so beneficial that the organization may require it. For example, an operating executive may be required to consult the personnel officer before promoting a man in his department. Or the personnel officer, in turn, may be required to discuss any proposed payroll announcement with key operating men before it is issued. Perhaps committees charged with review of plans will be formed. Once an organization has functioned for a time, these consultations take place as a matter of course and are supplemented by many informal contacts. Joint participation in one form or another is vital to sound planning.

From what has been said it should be clear that the "M Day" concept of planning is a fantasy. There is no omniscient planner who prepares a completely detailed master plan, all balanced, integrated, and ready to put into effect with a wave of the hand. Instead, planning is a continuing and diffused activity. There are many planning centers, each working on its particular problems and yet more or less interdependent. These relationships need to be recognized in the organization and in the planning procedures so that the several centers initiating and adjusting to change can "clear" with each other.

The preceding paragraphs on delegation, staff, and joint participation only introduce the subject of organization; more specific guides to executive action are discussed in some detail in Part II. The brief review in this section, however, shows how organization makes it possible to follow the analytical approach to planning in a much wider area than if an administrator undertook to do all the planning work himself.

Summary

Unlike Topsy who "just growed," good plans usually can be developed only through careful, diligent work. There is now wide recognition that they can be prepared best by following an analytical approach. Such analysis varies, of course, with the problem being considered, yet in almost all cases the following steps are desirable: (1) clarify the problem, (2) determine the alternatives and the key factors in deciding which is best, (3) get the facts, (4) analyze the

facts, (5) decide on action to be taken, and (6) arrange for execution.

This analytical approach to planning does, without doubt, involve considerable mental effort and time-consuming work. For a complicated operation, planning by this technique is beyond the capacity of a single individual. Through the use of simplifying devices, however, such as previously developed standards of operation and output, recognized limits within which the planning is done, drawing help from the institutional mind, and organizing to provide planning assistance, it is possible to do a good job of planning and still avoid nervous breakdowns.

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Chapter 7

SPECIAL CONSIDERATIONS IN PLANNING

The variety of circumstances and factors that arise in managerial planning are, of course, legion, and any comprehensive discussion of them would result in such a large and forbidding tome that it would serve no useful purpose. Nevertheless, there are some factors that cause difficulty often enough to deserve consideration. In the available space in this discussion we can do little more than call attention to a few of the more important of these, with the hope that when the administrator encounters them in actual practice he will regard them more as old friends than as inveterate trouble makers.

These will be discussed under the headings of logical considerations, psychological hazards, and strategic considerations.

Logical Considerations Distinctive in Administrative Planning

This is not the place to discuss the principles of logic, although one successful business man, Mr. Richard Weil, Jr., believes that the development of logical thinking is a very practical form of executive training.[1] Instead, we shall make the assumption that at least those executives and potential executives who take the trouble to read this document can recognize fallacies when they encounter them. There are, however, a number of points with respect to orderly thinking that are met frequently enough to deserve mention here.

Concentrate on differences between alternatives

In choosing between several alternative courses of action, those factors that remain the same in all instances may be disregarded and attention focused on those that vary. This procedure sharpens the real issues and avoids those that are irrelevant. For example, a men's wear

[1] See his book, *The Art of Practical Thinking*, Simon and Schuster, 1940.

shop had to move and its manager found two possible new locations for which the rent was the same and the space and fixtures, for all practical purposes, were alike. Since these were the only two real possibilities in the locality in which the store operated, discussion of the reasonableness of the rent or the adequacy of the space was irrelevant. Instead, the points deserving attention were the difference in buyer traffic passing the door, convenience for former clientele, possibilities for expansion, cooperativeness of landlord, and similar factors that were not the same for the two locations.

To cite another illustration, a traffic manager had to decide whether to ship his product to an area three to five hundred miles distant by truck or by rail. He discussed the problem with a number of associates in the accounting, production, and sales departments, and was faced with a variety of issues touching on almost everything he did. An examination revealed, however, that while changes might have been desirable in the warehousing, billing, and packaging of the product, they had no direct bearing on the choice of carrier. The real issue in this situation was a balancing between convenience of delivery, frequency of service, and traffic rates. To have associated the choice of carriers with a change in the accounting system or in the packaging would have confused the issue and possibly have led to an erroneous conclusion.

It sometimes is hard to set aside mentally the constant factors. The writer remembers how aggravated his wife was with a notice either to pay a $10 fine for making an illegal left-hand turn or, if there was any question of fact, to appear for a hearing before a police judge a week hence. Unfortunately there was no doubt as to what took place and other points—the sign was hard to see, left-hand turns should be permitted at that corner, it was the middle of the morning when it didn't make any difference anyway, other towns charged only $3 for a first offense—may well have been true but didn't affect the available courses of action, since apparently the $10 fine would be levied in any event. The only real choice was between paying it immediately or devoting a morning a week hence telling the police officials how unreasonable they were and then paying it. Had there been a fifty-fifty chance of avoiding the fine at the hearing, then the question would have been whether a morning's time was worth more or less than $5. In any case, discussion of the fairness of the legal system was irrelevant to the decision that had to be made.

Disregard sunk costs

In other words, concentrate on present and future sacrifice. This principle is simply illustrated by a trader on the Stock Exchange who owns a hundred shares of U.S. Steel stock. He has a choice of selling the stock at the current price, say $75 per share, or holding it in anticipation of a price rise and dividends. It makes no difference whether he paid $100 per share or $50 per share (except as this may affect his personal income tax situation); the significant factor is the present price because this is what he sacrifices if he chooses to hold the stock.

Sunk costs are past expenses and investments, or parts thereof, that cannot be retrieved by resale. Sunk costs are most commonly encountered in equipment that becomes obsolete, in buildings that were erected in times of high construction costs, and in special-purpose facilities and equipment that have comparatively little value except for the particular use for which they were designed. The concept of sunk costs also applies to inventory, the market value of which has changed since it was purchased, or to an advertising campaign or personnel course that has already been completed.

If these past expenditures have created assets that can be sold in the present or future market, then that present value should be considered an expense of using them; but the balance of the expenditure is water over the dam as far as current planning is concerned. The sunk costs will not be changed by any alternative course of action, and, in line with the principle previously discussed, may be set aside in our thinking because they are not variable factors.

Naturally it is desirable to recover through operations as much of the sunk costs as possible, and the use of only the present resale value in laying out plans favors continued employment of the asset. Any new asset should provide economies or other benefits sufficient to cover interest and depreciation on the total investment (present sacrifice), whereas the old equipment should be charged with interest and depreciation on only the resale value (present sacrifice).[2] Incidentally, the valuation of assets for balance sheet and profit and loss accounting purposes follows quite a different set of rules, inasmuch

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[2] Possibly the resale price may be higher than the original cost. Even so, it is the resale price that is significant for planning considerations. The enterprise must decide whether it would be better off to sell at the high price or hold the asset for its own use.

as these records are designed primarily for financial and historical purposes, rather than as planning tools.[3]

Discount uncertainty and time

Much of administrative planning is necessarily based on forecasts and estimates, and it is frankly recognized that unforeseen events may upset even the best of these. Consequently, it is often necessary to think in terms of probability or calculated risk. The underlying assumption is that during its existence a company will face so many risks that "the law of averages" will work out.

This approach poses difficulties when certainties, high probabilities, and "long shots" are all involved in the same problem. If only a few clear-cut probabilities are involved it is possible to multiply the income or expense by a fraction representing the probability of its occurrence; a sure income of $100 would then be considered equal to a one-out-of-five chance of an income of $500. When there are a variety of uncertainties present and even the probabilities are hard to estimate, it is more practical to complete the analysis with the best figures and forecasts available and then make an over-all adjustment for uncertainty. Thus, we find engineers following the rule of thumb that new investment in equipment should pay for itself in two or perhaps three years. While the rate of discount usually rests on subjective judgment, discounting is an entirely logical manner for dealing with such situations.

A similar, though less troublesome, adjustment is for differences in the time when income or expenses may occur. A thousand dollar income ten years from now clearly is not worth as much as a thousand dollars today, nor is a necessary two hundred dollar expenditure five years from now quite as onerous as two hundred dollars a year from now. When relatively large sums are involved in the analysis, they may be placed on a comparable basis by discounting each on a compound interest basis, using the value of capital to the enterprise as the interest rate. Numerous minor adjustments of this nature are usually not worth the trouble, because probable errors in forecasts and the uncertainty involved overshadow the improved accuracy from such minor adjustments for time. Nevertheless, in some planning situations the concept of discounting is highly useful.

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[3] B. E. Goetz has made a highly penetrating and constructive analysis of this point in his *Managerial Planning and Control*. This topic of logical considerations in planning is discussed particularly in Chapters 5 and 6.

Separate measurable and intangible factors

Most planning decisions involve both measurable and intangible factors. It is desirable, if possible, to separate measurable items, reduce them to some common denominator (usually dollars), and compute the net gain or cost and the net investment. This gives only one or two items which can be balanced more easily with the remaining intangible factors.

For example, a company enjoying increased sales had to have additional warehouse space. Preliminary investigation reduced the possibilities to two alternatives: an addition to the present warehouse or the erection of a new district warehouse that would also serve as a district sales office. A number of the factors could be computed with reasonable accuracy. These included differences in shipping cost arising from bulk shipment to the district warehouse, the expense of operating the district warehouse minus the savings in central warehouse expense resulting from the transfer of stock to the district warehouse, and differences in travelling and communication expense of salesmen and executives. Also the net investment was computed, that is, the excess of investment in the new warehouse and office over the additional investment that would be needed for the addition to the old plant. Office space at the home plant was not a factor, as it would remain constant in either alternative.

While some economies in freight would be realized, the total calculations showed a net increase in annual expenses of $15,000 and a net additional investment of $60,000 for the district office and warehouse operation. To simplify the problem further, the depreciation and interest on the net investment was estimated at about $5,000 a year, bringing the net increase in expenses to $20,000 per year. On the other hand, it was recognized that the district sales office should result in increased sales inasmuch as customer service would be improved, closer supervision of salesmen would be possible, and a district sales executive located close to the scene would facilitate adjustments to the local conditions.

The problem was thus reduced to the fairly sharp issue of whether enough increased sales would result from the intangible factors to justify an increase of expense of $20,000 per year. Sales volume was important to the company because of its relatively high fixed manufacturing cost, and it was believed that increased competition would make service and effective salesmanship important in securing sales.

Consequently, it was decided to go ahead with the new district warehouse and sales office.

An analysis such as the above helps planning by sharpening the issues. Tangible and intangible factors are not mixed together, so that in effect the entire decision is made on an appraisal of the intangibles; only those factors that are different for the several alternatives receive attention; all the measurable factors are consolidated into a single net figure, thus reducing the complexity of the final decision.

Consider major factors first

Most planning problems involve a variety of considerations, and this naturally raises the question of where to begin. A logical approach is to analyze first those major factors that may dominate or control the entire decision; the study of these major factors may indicate that one or two alternatives should be immediately abandoned, or that the answer must fall within certain limits. With this knowledge in hand, irrelevant study can often be avoided.

The desirability of such an approach is illustrated in the experiences of a new company that developed a machine, called Castype, to be used in setting type. The new machine made slugs like a Linotype, but was operated from an ordinary typewriter keyboard so that any office typist with a little training could run it. The new company had spent considerable time overcoming engineering difficulties and had a product that appeared to be well designed mechanically. Questions of patent infringement and patent protection had been explored and arrangements made for licensing where necessary. The company had decided to have all its parts made by other manufacturers and had located concerns with satisfactory facilities for this purpose. The executives believed they were then all ready to go and approached some bankers for capital to finance the actual production.

The bankers, however, were unwilling to make the investment until marketing problems had been given more than the relatively scant attention they had received up to that point. A consulting firm was asked to make this study, inasmuch as the executives of the company were engineers and had little background in the marketing field.

The consultants found that while the new machine could be useful in certain situations, the total potential market was very limited. Even if the machine lived up to all of the expectations of its originators it was doubful if more than a few hundred of the machines could be

sold in the entire country. This was not a large enough quantity to justify the mass-production methods necessary to get the cost down to a competitive range. Also, the difficulty of servicing such a small number of machines would have restricted its sale. Clearly these marketing facts should have been explored before expenses for detailed engineering, legal work, and production planning were incurred.

It might be noted that the marketing consultants in this instance first attempted to set the general limits within which the machine might be used, and then explored in more detail the problem of marketing the product within this group of potential users. It was found, for example, that most smaller companies did not use enough printed forms, circulars and bulletins to justify equipment of this type; carbon, mimeographed or hectograph copies were adequate for most of their needs. On the other hand, a number of larger companies had their own printing departments and saw little advantage in the use of Castype. The insurance companies, banks and other companies that fell between these two limits often had special printing requirements that could not be met by the Castype machine, and so they, too, were ruled out. Having narrowed down the group of potential customers, it was possible to consider more detailed plans for reaching them. This study was not made, however, because by this time it was clear that the entire project was not economically sound.

The study of major factors first in order to establish limits within which the detailed planning should be conducted is helpful in a variety of planning situations. Just as the artilleryman may "bracket his target" or the statistician may follow the method of "successive approximation," the administrator may use one or two key factors to narrow down the area for detailed planning.

Thus, one woolen-textile mill in scheduling production for a season first obtains a market forecast of the demand for each of several major types of fabric, and prepares a general schedule by departments to meet this demand. Potential bottlenecks are brought to the attention of management, and either production changes are made or the sales department is requested to modify its sales program. A revised and more specific production schedule is then prepared, but the scheduling of specific patterns and colors is not done until the beginning of each month. This monthly plan provides the basis for detailed scheduling to machines within each department, although revisions of these detailed schedules are often made from week to

week. Specific commitments for delivery to customers must, of course, be tied in with the detailed schedules. The point of interest to us here is that it would be unwise for a department manager to prepare the detailed schedule until after the analysis of general market conditions, coordination of production and sales plans, and the specific sales forecast have been completed.

Before leaving this general topic of logical considerations in planning, it should be emphasized again that the preceding discussion is far from complete. The suggestion to concentrate on differences in alternatives, to think in terms of present and future sacrifice, to discount uncertainty and time, to separate tangible and intangible factors, and to consider major factors first have been selected only because they apply to the reasoning needed in a great many planning situations.

Psychological Hazards to Rational Planning

In the discussion of planning techniques thus far it has been assumed that the administrator makes his decisions as the result of a rational mental process. This is only partially true, because unconsciously the experience and the beliefs of each executive color his decisions.[4]

It is quite important that the administrator recognize the psychological limits of the area in which he actually makes rational decisions. There is nothing wrong with an executive planning in accordance with a particular cultural pattern, *provided* the people and things with which he deals actually do behave according to the pattern. He should be fully aware at all times of some of the tricks his social-psychological background may play with his reasoning, and have the good judgment to recognize when there is real danger of being led into faulty planning. An appreciation of these psychological aspects will also help in directing and controlling the actions of subordinates and in predicting the reactions and behavior of other people.

Imagination tends to be confined to actual experience

First, it should be recognized that an executive's background and experience affect his ability to think of alternative courses of action and to recognize the importance of certain facts in a given situation.

[4] See H. A. Simon, *Administrative Behavior*, The Macmillan Company, 1947, Chapters 3, 4, and 5.

Moreover, one's experience affects one's ability to imagine future conditions realistically and thus to make good forecasts upon which the plans are based. For example, the first automobiles were literally horseless carriages. The designers of these cars naturally thought in terms of the vehicles they had seen and used, and they designed something that was a modification of what they had experienced.

The same tendency was found in the policies and methods of procurement used by the armed services at the beginning of World War II. The experience and attitude of the men who had been dealing with procurement for the preceding generation ran in terms of such things as uncompromising insistence on army or navy specifications (brass buttons on uniforms in spite of a critical shortage of copper, for example), a competitive system with many eager suppliers, and the use of ample safety margins as to quantity and time. The early procurement programs to meet the staggering demands of global warfare were merely modifications of the earlier methods, and were rather poorly adapted to an economy strained to the utmost in meeting military and essential civilian needs. The thinking of the procurement men at first made only superficial adjustment to the basic changes in the supply situation.

Individuals vary greatly in the extent to which they can picture in their minds operating conditions that they haven't actually experienced. Some men have a sixth sense as to what operating problems are like in varying conditions, and are able to plan realistically. The thinking of other men falls into rather definite forms fixed by their own experience. This difference can frequently be observed in men who are promoted to general executive positions from one specialized department, such as production or accounting. Many become good, all-around executives, while others continue to be primarily specialists sitting in the boss's chair.

As the production manager of a company whose president had come up through the sales department remarked: "Let's have this all worked out before it gets into the president's office. He thinks all we have to do is to step up the advertising program in the company magazine and distribute a few samples, then our problems will be licked." Had that president been aware of his tendency to apply sales department experience throughout the company, he could at least have sought a full analysis of situations and been more cautious in his final decisions.

Beware of assumed "facts"

Another tendency is to accept without question certain assumed facts or modes of behavior. A business man from Japan, for example, explained with considerable insight the reaction of people in his country to American salesmanship. Generally, he said, the Americans tried to follow the same techniques of selling in his country as were effective in the United States; the same neatness of dress, pleasant, persuasive manner, desire to close the sale promptly, and so forth. In his country the importance attached to little courtesies as contrasted with personal dress and other aspects of social relationships were different. Consequently, the American sales manager who laid out a program for a foreign country on the basis of what he "knew" about the way people behaved was likely to make a serious blunder.

Even within the United States there are still many executives who "know" that their employees are interested almost solely in the pay check—despite the fact that psychologists and others have been advising us to the contrary for a generation. A. H. Leighton has pointed out in *The Governing of Men* that each group and individual has a system of beliefs (some of which may be inconsistent) that conditions his acceptance of new facts, his attitudes, and his decisions. This is true of administrators just as it is of common laborers. As long as the desired action or plan fits in with this system, it is a relatively easy matter to accomplish it. But at other times it is necessary that these basic beliefs be modified, and this is a more difficult task. It is the wise executive who guards against provincialism of this sort.

Reluctance to accept the unpleasant

Still another unconscious limitation on rational decisions is an unwillingness to really accept other management decisions that affect the action in question. Assuming there has been adequate communication of the objectives and policies to be followed, which often is not true when several layers of supervision are involved, there still may be holding back and mere lip service to the idea.

The Pierce-Arrow Company, for example, decided a few years before it finally was liquidated that it should produce a medium-priced car that would capitalize on the reputation for quality and the general prestige of the name. Engineers, production supervisors, sales directors, and many others who had been with the company for

years could not, however, adapt themselves to the manufacture and sale of a lower-quality product. They took pride in their work; they thought in terms of real craftsmanship; the potential customers were still people who were much more interested in quality than in cost of operation; and so it went. The old concept of Pierce-Arrow was so deeply ingrained that they could not accept, or certainly did not understand, what was involved in stepping into a different quality bracket.

A somewhat similar difficulty was experienced by aircraft companies with a much shorter experience. These companies were greatly expanded during the war and most of their executives thought in terms of a large-scale organization. When reduced levels of operation following the end of the war required trimming their organization and consolidating activities consistent with this lower level, many of the executives failed to grasp what was really necessary. The safety engineer, the training director, the designer, the machine-shop superintendent, each recognized that some curtailment was in order, but felt that his particular activity was, of course, of such importance that nothing more than a reduction of staff needed to be considered. Despite the basic decision that had been made they still thought on too grand a scale. Only drastic operating deficits of many concerns brought about the scale of retrenchment that was needed.

The sooner an executive learns that he, along with most of the rest of us, is not as objective as he would like to believe, the more likely he is to avoid the pitfalls of psychological restrictions on his planning.

Strategic Considerations in Planning

There is still another aspect in planning that is widely recognized by successful administrators, but little discussed in the literature. This is the matter of strategy, which is used here to mean the adjustment of a plan to the anticipated reaction of those who will be affected by the plan. Many a plan will run into difficulty if attention is not given to the reaction of competitors, customers, material suppliers, fellow executives, and other associates within the enterprise; a related question of winning support of subordinates is considered in the chapter on direction. Henry Dennison has recognized this aspect of planning in what he calls the political issues.

What to do is to be settled by what is right to do. . . . Whom to advise with first, whom to notify, how to say it, when and in what setting to act—these are "political" questions. What is right to do is the first question to be settled, and is ordinarily in a business not political.[5]

Although strategy has been recognized for centuries as a vital aspect of administration in business, government and military operations, it has received almost no systematic attention except in connection with military operations.[6] The purpose of the discussion here is merely to show the nature and importance of strategy. The strategies that will be described are not necessarily recommended, nor is any moral judgment intended. They may be good or bad, depending upon the situation and the purpose for which they are used, just like any other phase of administration. Many of the captions in this particular list are adapted from an outline prepared by Professor L. C. Sorrell of the University of Chicago.

Timing strategies

Strike while the iron is hot. This strategy calls for prompt action while the situation is propitious. Thus a manufacturer of products depending upon a style or fad, such as miniature golf courses, must get his goods on the market before public fancy changes. To cite another example in quite a different area, one wise executive who was being promoted to a vice-presidency because of the inefficiency of his predecessor immediately asked for and got more clear-cut authority than probably would have been granted to him after the current difficulties had been corrected. Similarly, a company wishing to change its channel of distribution from wholesalers to direct sales to retailers made the change promptly after the last war when the sharp demand for goods tended to reduce any loss of sales because of the transition.

Things must get worse before they get better. If there is not a general recognition of the need for a change, it is sometimes wise to delay even though the executive is convinced of the need for the action. President Roosevelt followed this strategy when he refused to indorse nation-wide gasoline rationing in the spring of 1942 as a means of conserving rubber. Critical though the supply of rubber

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[5] *Organization Engineering*, page 36. Copyright, 1931. Courtesy of McGraw-Hill Book Co.

[6] An outstanding exception is J. von Newmann and O. Morgenstern, *The Theory of Games and Economic Behavior*, Princeton University Press, 1944. Unfortunately this treatment is too abstract and mathematical to be directly useful to most administrators

was, he let the situation deteriorate even further because the public, the oil companies, and others had not yet recognized that action as drastic as rationing was needed. Likewise, the sales manager of a nationally known hosiery company recognized the need of decentralizing to his district manager authority to change prices, but delayed making the change until the desirability of such a move was clearly recognized by the president and other executives of the firm.

Time is a great healer. Some actions may be wisely delayed until there is a cooling-off period. In fact, one executive observed after returning from his vacation that he was surprised how many of the things that had been sent to his desk had taken care of themselves apparently quite satisfactorily before he returned. Another executive reports that he makes it a practice to postpone if at all possible important personnel action for at least a month. During that period it may develop that a man who was scheduled for discharge can be advantageously transferred to another position, or that a clash in personalities which appeared to call for reassignment of duties has been mitigated to the point where no change is necessary.

Keep one jump ahead. Attempts to follow this strategy are clearly apparent in the annual change in models of automobiles; for example, in the introduction of all-steel bodies, hydraulic brakes, automatic gear shift, high-compression engines, and various body designs. From time to time some of the large industrial companies have attempted to secure favor with their employees by taking the lead in granting wage increases, closed-shop provisions, company-financed pensions, or other benefits.

There is, of course, a risk in attempting to lead the parade, because sometimes the would-be leader finds himself alone on Grand Avenue when the rest of the parade has turned up Broad Street. For example, in the scramble of oil refineries to control their crude oil supply in the years immediately following World War II, the companies that first advanced their buying price usually obtained an advantage while the other companies were making up their minds to follow suit. In the fall of 1948, however, one company seeking this advantage was jolted when other companies did not follow it; the supply situation had adjusted itself, so instead of having an advantage, the company found that it was paying well above the market price for its principal raw material.

Timing is one of the most important elements in strategy. It is a

factor not only in situations such as those just illustrated, but also in several of the examples to be discussed under other headings.

Positive action strategies

Mass concentrated offensive. When Marshall Field & Company decided to liquidate most of its $35,000,000 wholesale business, action was taken in all departments at once, inventories liquidated rapidly, and employees discharged promptly with liberal termination pay. The liquidation was costly, but was virtually completed within a year's time. Mr. McKinsey, chairman of the board, recognized that higher prices for some of the inventory might have been secured if it had been worked off over a period of two or three years, but believed that these higher prices would have been more than offset by the uncertainty and poor morale that would have been inevitable during that period, and by the delay in starting a positive program for the manufacturing activities that were to be retained. World War II, with the accompanying transition of production to war work and the subsequent return to civilian production, provided many other examples of this strategy.

Fabianism—avoid decisive engagement. This strategy, which recommends gradual rather than revolutionary changes, is in sharp contrast to the one just discussed. It was well illustrated by an executive who was brought into a company that manufactured several distinct lines of products and had been coasting along without many new ideas for well over a decade. The new man was slated to become general manager and might well have insisted that the heads of each of the product departments follow his ideas immediately. Instead, he took a newly created position called Sales Promotion Manager which provided him an opportunity to learn the business and to make suggestions to the experienced men for improvement within their departments. If his ideas were not immediately accepted he did not try to force them through, but waited until they could be put into effect without a sharp clash with the "old guard." Progress on specific projects was slowed down as a result of this strategy, but internal dissension and lack of cooperation was avoided and the services of men who had important product knowledge were retained.

Camel's head in the tent. It is sometimes possible to make a small beginning when a total program would be unacceptable. For example, at a time when all priority applications received by the War Production Board were acted upon in a central bureau, the rubber division

requested that it be given authority to grant priorities on products in which only the rubber industry was concerned; it was stated that this would speed up the processing time by perhaps a week, which was quite important in view of the rubber situation. This request was granted and within six weeks the rubber division was back again with a suggestion that, inasmuch as the first arrangement was working so well, the division should be given permission to grant priorities on products which were preponderantly used by the rubber industry, with the understanding that the other industries affected would be adequately safeguarded. It was pointed out that this was merely an extension of the original exception that had been made. This request was also granted.

Then at a later date the rubber division pointed out that while the arrangements already made had speeded up the flow of some of the materials to the rubber plants, much of the benefit was lost because other materials could be secured only on approval of the central bureau, and that, since the division was already granting priorities on the materials used by more than one industry, all that was necessary was to extend this general idea to permit the rubber division to grant priorities on any products needed by the rubber industry. This request was finally granted. Had the rubber division asked for such sweeping priority powers in the first instance, it would, without question, have been turned down; whereas the step by step approach finally achieved the result.

Boring from within. This strategy, perhaps best known in the operation of a communist cell, may be used when some executive has an emotional antagonism toward a project or program. The production manager of one company, for instance, had no use for these "new-fangled personnel ideas." The personnel director, however, did borrow one of the outstanding young executives in the production department for a special project, and during the period when the young man was on loan thoroughly indoctrinated him and enthused him regarding modern personnel practice. Some time after the junior executive returned to his former job, a bad situation developed because a man clearly unqualified had been placed in a foreman position. The junior executive took the opportunity to suggest that they might study the foremen who were successful and those who were not in order to determine what to look for when a new man was to be appointed, and thus began laying the basis for the use of personnel specifications.

At another time there was considerable argument regarding the rate of pay for the maintenance man in one division because he was receiving substantially less than the maintenance man in another division. This provided an opportunity for the junior executive to point out to several different members in the department that a job evaluation program might be helpful. By the end of two years the groundwork had been prepared for the beginning of a really sound personnel program.

These strategies, ranging from Mass Concentrated Offensive to Boring from Within are suggestive of approaches to get something done. Others of the same category might be The Trojan Horse, Achilles' Heel, Sowing Seed on Fertile Ground.

Joint action strategies

In union there is strength. Some executives make a practice of seeking allies to work with them in promoting a change. Thus, if a department head wishes to get salary increases for his employees he will try to get other department heads to join with him in a general request for higher wages; or if a company wishes to oppose or support legislation pending in Congress it will seek to get other members of the industry to join together so that their representation may be more effective. The rugged individualist, on the other hand, prefers to play a lone hand.

Unwilling ally. Often an individual who is far from enthusiastic about some plan can be made an active ally by assigning him some important role in connection with its execution. Unless he wants to oppose the whole program, he then finds himself a member of the team promoting it. For example, when some consultants recommended basic changes in the organization of a company, a procedures' analyst within the company was asked to work out the detail and assist in the installation of the change. Although he was lukewarm to the basic proposals, he soon found that he was regarded by other employees as a major proponent and that the effectiveness of his work was going to be judged in a large measure by how well the changes worked out. The Power-Behind-the-Throne strategy is sometimes associated with this unwilling-ally technique.

Divide and rule. This well-known political strategy has been applied in governments ranging from city councils to England's balance of power in Europe. It has also been used within business enterprises, though usually with serious loss of teamwork and coordination. The

chief executive of one company, for instance, deliberately encouraged his major executives to report inconsistencies or weaknesses in the actions of their associates. Armed with this information the chief executive confronted the man concerned with the apparent deficiency and hoped to smoke out something wrong in still another department. It was his contention that this kept the executives on their toes. What he didn't appreciate was that it also erected a barrier for free interchange of operating information and for cooperative effort among his subordinates.

Defensive action strategies

Keep on sawing wood. Another name for this technique might be *By Their Works Ye Shall Know Them.* It is used by an administrator who wishes to disregard criticism coming his direction. While dramatically illustrated by Pasteur and Frederick Taylor who persisted in their experiments despite the criticism of their associates, the technique has been used by countless other people who have faith in what they are doing and put their efforts into doing it well.

Red herring across the trail. This strategy consists of a deliberate attempt to divert attention and confuse the issue. It is commonly used in politics; for example, the injection of the race question into discussions where it has no bearing. Franklin D. Roosevelt was accused of using this strategy in 1938 when he talked in a number of election speeches of the danger of international war instead of the current decline in business. Here, again, the strategy is not often desirable for operations within an enterprise where it is usually better to lay the cards on the table and deal with issues frankly. However, there may be times, such as evading the questions of a man who is being considered for a transfer, when deliberately confusing the issue is appropriate.

Counterinvasion. This strategy is seen almost daily in competitive sales promotion. If one company offers a rose bush for a jar top and a three-cent stamp, its competitor is likely to respond by selling his peanut butter in a cocktail glass. Essentially the same thing happened in a company that was having difficulty getting its shipments made promptly and correctly. The manufacturing department after emphasizing the difficulty, suggested that the shipping department be transferred to it from the sales department, thus giving the manufacturing department control over the physical handling of goods up to

receipt by the customer. The sales department, agreeing fully as to the present confusion, countered with the request that warehousing be transferred from the manufacturing department to the sales department, so that the sales department would have full control over all activities after the goods were in finished form. Obviously, if such a strategy were widely used within an enterprise it could quickly injure cooperation.

Capitalize on apparent defeat. During World War II we were asked to feel sorry for the Lucky Strike cigarette manufacturers because they could no longer market their product in the familiar green package. From all sides we heard the dirge, "Lucky Strike green has gone to war." Regardless of whether there was in fact a scarcity in green dye, one can't help but imagine the delight in the sales promotion department to get rid of the dull green package. Lucky Strike green must have been a war casualty because it has not yet returned.

Cautious action strategies

Passing the buck. Rightly or wrongly this technique of transferring blame to someone else is reported to be common practice among army officers. The alacrity with which the Army agreed that the War Production Board should handle the delicate matter of approving the locations and firms to be affected by cut-backs in military programs in 1945 suggests that at least someone in that regime recognizes a disagreeable job when it comes along. As collective bargaining between the unions and the large corporations becomes increasingly a public issue, there are frequent attempts to maneuver the negotiations so that you and I believe that the other side is responsible for disagreement and perhaps strikes.

Let someone else pull your chestnuts out of the fire. While at first glance this strategy suggests cowardice, there may be occasions when its use is quite legitimate. For example, a sales manager may have strong suspicion that the difficulty in quality of a certain product is due to the faulty procedures in the manufacturing department. If he pressed the matter with the production manager or the president, he might well be accused of interfering with the other man's affairs. However, if the company had an organization analysis or industrial engineering department, it might be entirely appropriate for the sales manager to urge this division to look into the matter. In other words, there are times when a desirable action can be more appropriately

taken by someone other than the individual who will benefit from the action.

Conserve your gunpowder. In applying incentives it is generally recognized that it is wise to exercise no more motivation than necessary to accomplish a result, and to conserve the stronger pressures and tactics until the desired action can be secured only through their use. The same thing is true in other areas. Overselling may not only be wasteful, but it may make later promotions more difficult. The top executive of a company may be deliberately kept out of negotiations with labor unions or material suppliers until a critical point is reached; if he enters at that point, his presence will carry greater prestige and weight.

This discussion of strategy was intended to be suggestive, rather than comprehensive. Enough examples have been given to illustrate the variety of strategic considerations that should be taken into account when preparing plans. The administrator who prides himself on being practical probably would place great emphasis on these considerations; theoretical analysis, on the other hand, has tended to stress logical considerations and the refinement of mathematical computations. Good planning obviously requires that both aspects be given due weight.

Summary

Good planning calls for attention to logical considerations, psychological hazards, and strategical considerations. Among the distinctive features of rational planning are: concentration on differences between alternatives, and on present and future sacrifices; discounting uncertainty and time; separating measurable and intangible factors; and considering major factors first.

In practice, however, it is difficult to be entirely rational. Our experiences limit our grasp of a situation; we tend to accept certain facts without questioning their validity; and we may unconsciously fail to abide by basic policies because we don't like them or don't understand them. These psychological hazards need to be recognized and guarded against.

Finally, good planning calls for adjustment to the probable reactions of those affected by the plans. In other words, there are strategic or political considerations that must be incorporated into our planning if it is to be practical and effective.

This chapter concludes Part I on planning. The discussion in this first part has centered around two broad management problems, (1) what form should planning take, and (2) how should planning decisions be made.

The pattern of planning in an enterprise typically is made up of several types of plans. Objectives, budgets, deadlines, standards and other *goals* set the sights for company and departmental executives; and they play a key role in integration and control of operations. *Single-use* plans—such as programs, projects, and specific methods—map out the course of action to be followed in an ever-changing environment. Many parts of every company's activities are repetitive, however, and for these *standing plans*—including policies, standard methods, and standard procedures—greatly simplify the planning task and provide an important element of stability.

The administrator must decide how he can make best use of these forms of planning. To assist in this choice, the nature and advantages of each type of plan have been considered. An inevitable question is how far ahead and to what detail the planning should be carried. Inaccurate forecasts, expense, time, danger of inflexibility, and absence of repetitive operations all place limits on how much planning is practical. These and related issues have been discussed in Chapters 2 through 5.

The last two chapters have dealt with the *how* of planning. Emphasis has been placed on the analytical method as a basic technique. Since this involves a lot of effort, ways of simplifying and organizing the planning work were reviewed. Finally, special considerations that an executive should bear in mind when preparing plans were discussed.

A good pattern of well-conceived plans, however, is only the first step in administration. The administrator must also create an organization to formulate and carry out such plans; resources must be assembled; direction and coordination of actual operations are necessary; and before the executive's task is completed he must exercise control. Upon these further processes of administration hinge the success of even the best conceived plans.

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Part II

ORGANIZING

Chapter 8. Departmentation
Chapter 9. Service Divisions
Chapter 10. The Process of Delegation
Chapter 11. The Role of Staff
Chapter 12. Decentralization
Chapter 13. Use of Committees
Chapter 14. Organization for Top Administrative Functions and Interest Representation
Chapter 15. Span of Supervision
Chapter 16. Organization Structure
Chapter 17. Organization Structure (*Continued*)

Chapter 8

DEPARTMENTATION

Major issues in administrative organization

The numerous plans in an enterprise, which have been discussed in Part I, call for a variety of activities and, if these activities are to be administered effectively, some form of organization is essential. Just as soon as two or more people contribute their efforts to a joint enterprise it is necessary to have an understanding as to "who does what." The operating and administrative activities must be partitioned off into bundles of duties that can be assigned to specific individuals, and relationships must be established between these individuals to assure that their efforts are coordinated toward a basic objective. In other words, the team must be organized.

The administrative process of *organizing* an enterprise or any of its parts consists of (1) *dividing and grouping the work* that should be done (including administration) into individual jobs, and (2) defining the established *relationships* between individuals filling these jobs. There will be, of course, other informal and social relationships over which the administrator has little influence; they are part of the setting in which the administrative organization operates. Since we are concerned in this book with principles or guides for executive action, attention will be focused on the organizing an executive can and should do, and the social structure will be considered simply as an important part of the situation in which the executive works.

Organization is essential in small as well as large enterprises. The small country newspaper, for example, may have only a half dozen employees full or part time, and yet the paper will not meet its weekly deadline unless each person understands his part in the total operation. Are reporters expected to get photographs along with the stories and have the necessary cuts made? Is the business manager responsible for purchasing paper, as well as soliciting and designing

advertisements and promoting circulation? Who is supposed to help the printer read proof? Can anyone besides the editor make changes in the copy, or cut the length of a story to fit the space available? And who is responsible for omitting Mrs. Fibbs Snyder's name from the list of the program committee of the Parent-Teachers Association? These are only a few of the organization questions that the manager of the paper must decide. The organization of a large metropolitan daily newspaper is, of course, much more elaborate with its separate sports editors, circulation managers, proofreading department, and other specialized divisions. Here there are problems of organization within the several departments as well as for the paper as a whole. The executive of a small enterprise, a large enterprise, or a department within an enterprise must deal with problems of organization.

The principal issues that arise in this connection are the following:

1. How should activities be divided into groups for purposes of administration?
   a. What guides should be used in assigning activities to departments?
   b. What service divisions should be created?
2. What relationships between individuals should be formally established?
   a. How may authority and duties be delegated?
   b. What use should be made of "staff" and "functional authority"?
   c. How much decentralization is desirable?
3. Are special provisions needed to knit the enterprise into a working unit?
   a. What role should be assigned to committees?
   b. What functions should the Board of Directors perform?
   c. Should interest groups be formally represented?
4. What should be the over-all organization structure?
   a. Have limits on span of supervision been recognized?
   b. Is the over-all structure balanced and workable?

Although these questions are expressed from the point of view of a top executive, it will become increasingly clear as they are discussed in this and the following chapters that they are also of major interest to executives throughout the enterprise. The junior executives as well as the senior executives have problems of adjusting organization in their own departments; they frequently advise regarding changes in the organization of related activities, and their daily activities are conducted within an organization structure the nature of which they should thoroughly understand.

This chapter deals with the first question on departmentation. The other questions listed above will be considered in the following chapters.

Common Ways of Grouping Activities

Departmentation is the process of grouping activities into units for purposes of administration. This process takes place at all levels in an enterprise. The president groups activities into major divisions under the senior executives who report directly to him; the sales manager may divide his work among an advertising department, customer service department, market research department, and three or four sales districts; the credit manager, who directs one of the groups under the treasurer, may divide his work among a group of credit men, each of whom handles a specific group of customers; the shop superintendent appoints foremen to look after each step in the production process; and the activities in the bookkeeping office are grouped together into jobs for individual bookkeepers. The common question faced by all executives from the president down to the first-line supervisor, is, "How should duties be combined together into jobs so as to promote the most effective results?" The administrative units created may be called divisions, bureaus, branches, units, offices, or some other name; whatever the name of the unit created, this process of partitioning is generally called departmentation.

Typical patterns used in departmentation

There are a number of typical patterns found in the departmentation of many enterprises, and an administrator will find it useful to be thoroughly familiar with these different alternatives. In business enterprises the patterns most commonly found are groupings by products, territories, time, customers, and functions. In government enterprises Gulick has found similar patterns, which he designates as purpose, place, person or thing, and process.[1] Other students of organization have reported a somewhat similar list of patterns.[2] A few very brief examples will serve to illustrate the meaning of these terms and call attention to the benefits often secured by using the particular pattern.

Grouping by products or services. Activities directly associated

[1] *Papers on the Science of Administration*, Institute of Public Administration, 1937, page 15.

[2] See L. Urwick, *Scientific Principles and Organization*, American Management Association, Institute of Management Series, No. 19; and T. R. Jones, *Theories and Types of Organizations*, American Management Association, Production Executive Series, No. 83.

with a product (or service) are often grouped together. Thus, in the corner grocery store there may be divisions for meat, groceries, and fresh produce. On a grander scale we find in General Motors separate divisions for Chevrolet, Buick, Cadillac, Frigidaire, Diesel engines, and other major product lines. Sometimes this product division occurs only within a department; for example, the work of the purchasing department may be divided according to different types of products to be secured. Such grouping by product takes advantage of specialized product knowledge, promotes coordination of the various activities connected with the product (purchase, production, storage, sales, et cetera), and often makes it easier to place responsibility for the results achieved.

Grouping by locations. When activities are widely dispersed, it is frequently desirable to provide local administration. Instances of this arrangement are found in the territorial sales divisions of a company distributing its products in several states, and in the self-contained operations of branch plants. Even within a building we may find a department store floorwalker assigned to a particular floor or the maintenance man to a given section of the building. Among the advantages of this form of departmentation is the more intimate knowledge executives should have regarding local conditions. This permits adaptation to local needs and also helps in getting prompt action. Likewise, the activities within the area are more easily coordinated and it is often possible to exercise more direct and immediate control.

Grouping by time. When operations during a day or week extend far beyond the normal work period of an individual, a "second shift" is often added. Public utilities, restaurants, continuous process industries, and many other enterprises have divisions distinguished on the basis of time as a normal arrangement. Other companies faced with a need for quick deliveries or greater output from limited facilities may use this device. Typically, the "second shift" performs operations that are very similar to those done in the normal working hours, but at least first-line supervisors are needed to provide adequate supervision and control. The more difficult organizational questions are how fully serviced and self-contained each shift should be, and what relationships should be set up between specialized executives who work only normal hours and the men who perform similar duties during the off hours.

Grouping by customers. This pattern, which is naturally found most often in sales operations, is sometimes reflected throughout the

enterprise. The bargain basements of department stores, for example, often cater to a different group of customers than those served by the upstairs store, call for different buying and service activities, and may follow somewhat different personnel policies. Customer grouping is sometimes a dominant factor in the organization of brokerage houses. In government operations we find separate bureaus for immigrants, veterans, Indians, children, farmers, and small business. Again, the advantages of such grouping are to be found in the use of specialized and detailed knowledge, the coordination of activities related to the customers, and, by no means unimportant here, the assurance of adequate attention.

Grouping by processes. Under some circumstances it is desirable to place all or most of the people using a given kind of equipment in one department; for example, stenographers, painters, or operators of heat-treating furnaces. In other cases, notably in manufacturing, the division may be based on clearly defined steps in a sequence of operations. Thus, in a sweater mill there may be separate units for knitting, steaming, cutting, sewing, trimming, pressing, inspection, and boxing and shipping. Among the advantages of such departmentation are the expertness that comes with concentration on the single process, a tendency to avoid investment in duplicate facilities, and, when the process is performed in one place, the possible improvement in "supervision."

Grouping by functions. With the growing complexity of administration of almost all types of enterprises—business, government, military and eleemosynary—functional departmentation has become increasingly popular. Just what is recognized as a function, however, differs greatly in actual practice. Some functional departments deal with a particular aspect of management, such as scheduling or inspection. Others are built around a similarity in work, as in a clerical department; or they may be based on a similarity in ability required to supervise them, as in the case of research. In other instances, the distinguishing characteristic of a functional division is its singleness of purpose or objective. The public relations department is a fairly recent example of this type, while the time-honored separation of sales, production, and finance has made functional grouping one of the dominant patterns in business enterprise. The chief characteristic and benefit of such grouping is specialization. By concentrating on some single phase or similar group of activities, specialized knowledge and skill can be fully utilized. Functional divisions are also established to assure that adequate attention is given to the activities concerned.

A familiarity with these typical ways of grouping activities is important background for the executive who is designing or modifying an organization. They are significant, not so much as patterns to be copied, but more as suggestive approaches in the development of an organization structure adapted to the specific needs of the enterprise.

Inadequacy of patterns

Difficult questions not answered. Unfortunately, an executive cannot settle his departmentation questions simply by casting a vote for some one of the typical patterns just discussed. Even if a decision is made to follow, say, a product pattern, there will remain numerous questions of just what activities belong in each division. For example, a retail store may decide to adopt a product pattern, but this still leaves unanswered the question of whether each department is free to do its own credit work, whether delivery will be centralized, what kind of accounting records should be maintained and who will keep them, and so forth.

Likewise, the decision to establish branch sales offices does not determine who will do the advertising, the extent to which personnel activities will be performed by the home office, nor the matter of local storage of merchandise. A decision to establish a controller's division does not provide automatic answers as to who should be responsible for corporate and real estate taxes, insurance, cost accounting, economic forecasting and market research, nor does it answer the even more fundamental question of whether the controller is expected to really control, or merely to provide data and analyses that will be helpful to operating executives in controlling their respective departments.

In other words, these so-called patterns of departmentation at best emphasize the dominant characteristic of a division or department. Important as this characteristic may be, it provides no formula for determining just what is to be included in a particular department—be it functional, customer, territorial, process, or product. And it is these questions of content and border line that are often the most troublesome to resolve.

Most organizations are composite. It should also be noted that very few organizations follow any one pattern of grouping. From the point of view of structure it is desirable that the subdivisions under any single executive be based on a single pattern, and where similar activities are performed in several different locations that a parallel form of

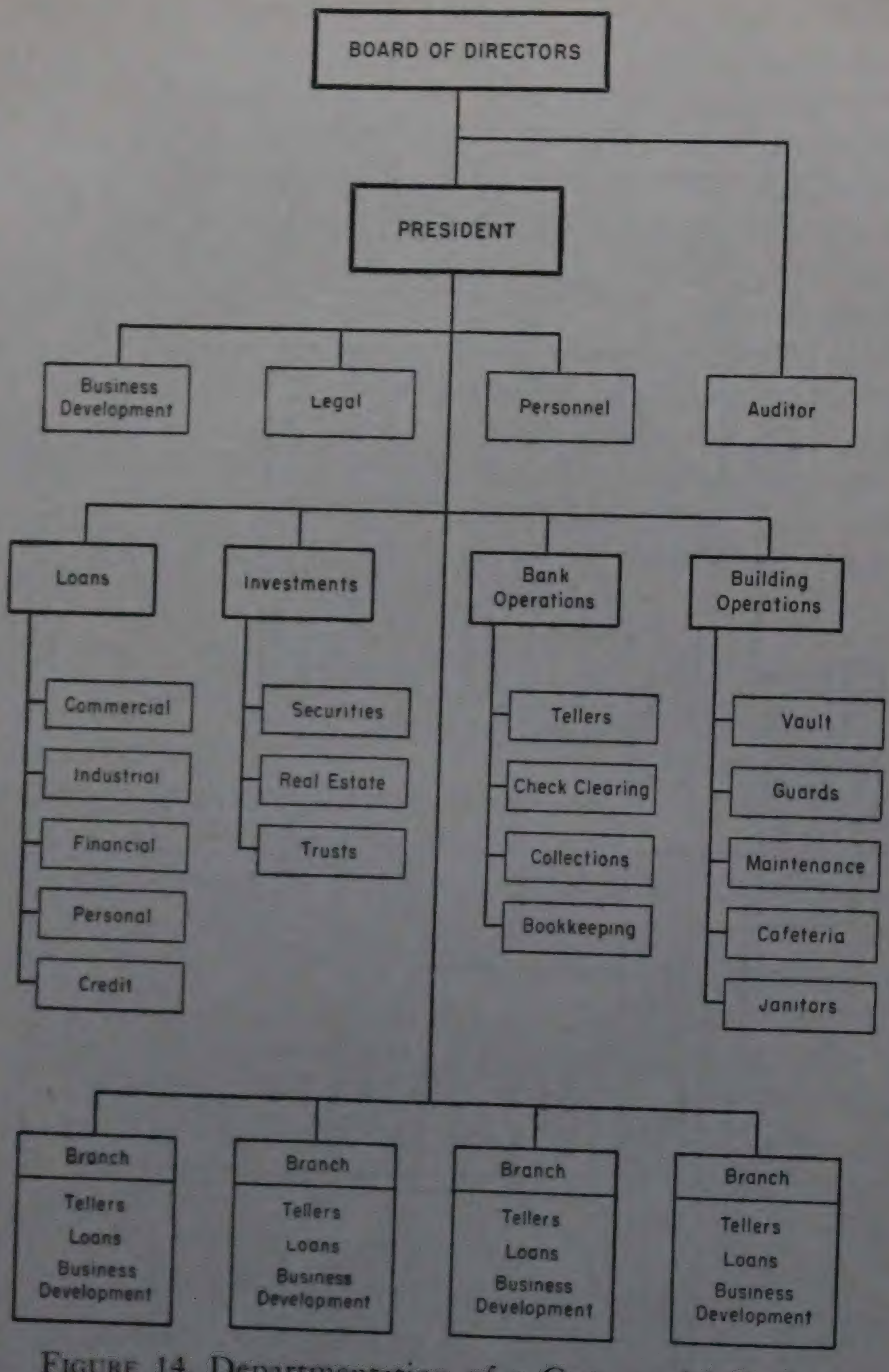

FIGURE 14. Departmentation of a Commercial Bank.

organization be followed. Even this is not essential, however, and there certainly is no need to follow, say, a territorial pattern at all levels in the organization just because it is the dominant characteristic of the major departments.

The use of several different patterns is illustrated in the chart of

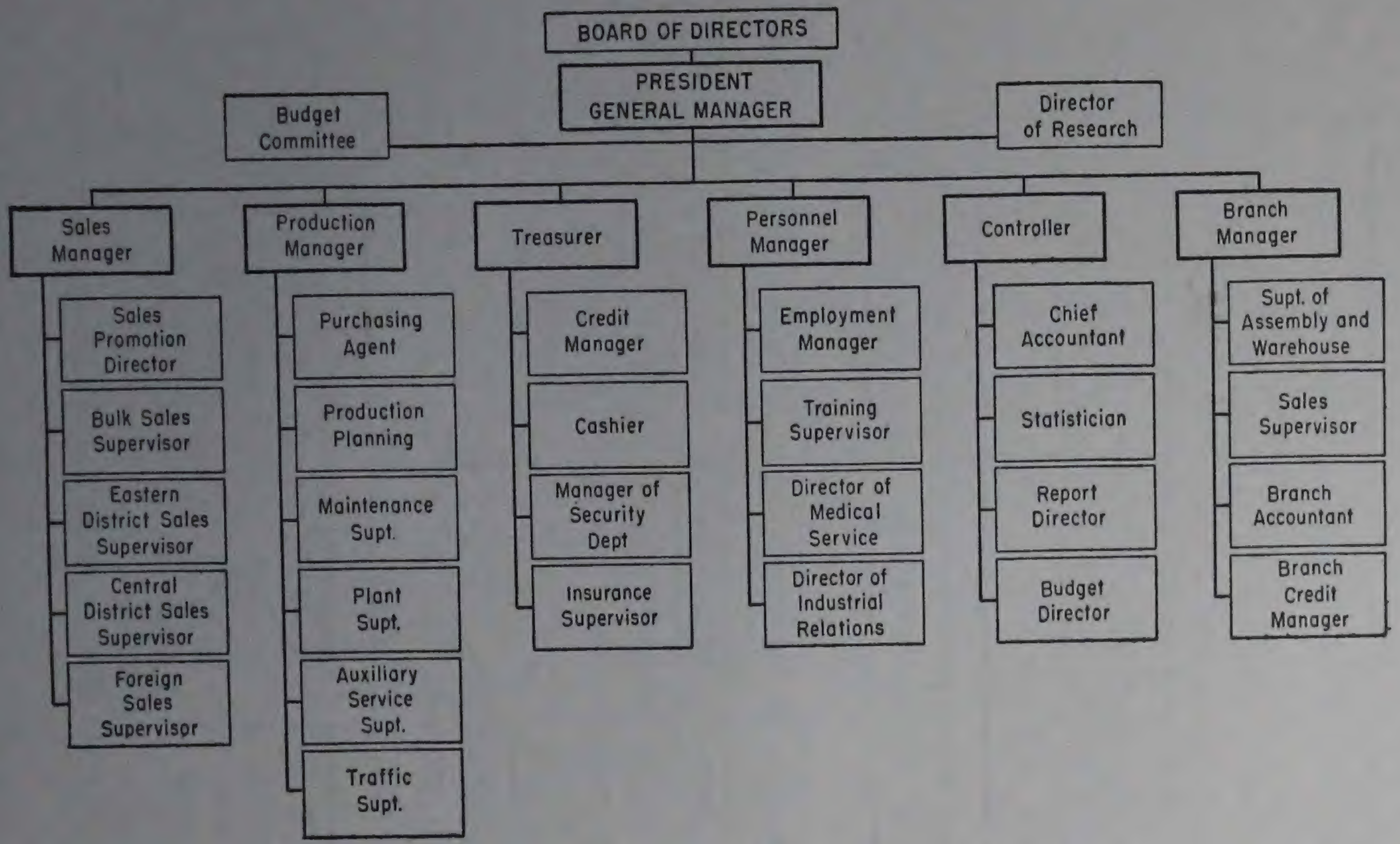

FIGURE 15. Organization of a Manufacturing Concern.

departmentation of a commercial bank, shown in Figure 14. While the organization of this, and most other commercial banks, is predominantly functional, the branches have been established on a territorial basis and the loaning activity, except for a centralized credit department, is divided according to types of customers. The detailed organization within the check-clearing department (not shown in the chart) is on a process basis.

The departmentation of a manufacturing concern, indicated in Figure 15, again shows that several different patterns were used. The predominantly functional pattern was modified to provide for a branch manager because of difference in location. Also the subdivision under the sales manager is primarily on a territorial basis. Both the commercial bank and the manufacturing concern have relatively simple organization structure, and yet no single pattern would have been adequate for the grouping of their activities.

Basic Factors in Grouping Activities

What activities should be included within a department, section, or other organizational unit? Where is it practical to draw a dividing line between the responsibilities of two closely related sections? What relationships between organizational units should be formalized and what delegations of authority should be made?

Clarification of points such as these is essential if the organization is to function smoothly. In actual operations, the administrator will face questions of clarification and refinement of his organization many more times than he will have occasions to consider changes in major characteristics of the organization structure. Shifts in volume or in operating conditions are occurring all the time, and minor organization adjustments to these changes are often necessary. For practical purposes, then, we need some guidance, not only in deciding on the basic organization pattern, but also for spelling out that pattern and resolving borderline issues.

The effective answers to these questions, unfortunately, are not simple. Experience demonstrates that no formula or mechanical application of rules provides a satisfactory answer. Instead, the particular arrangement will be influenced by the purpose of the enterprise, its size, people involved, stability and maturity, technology employed, major obstacles faced, and similar factors.

A practical way to design such an individualistic organization is to

identify the vital operational factors and then make combinations of activities that give optimum results in terms of these factors. Thus, the firm that seeks to give prompt delivery to distinctive customers may find that coordination is a dominant factor; whereas the company emphasizing mass production at low cost may stress economies from functional specialization.

There are a number of factors that are present in almost every organization problem. Although their relative importance varies from one situation to another, they are prevalent enough to warrant the administrator's at least considering them when shifting and grouping activities. In most situations appropriate attention to these factors will be all that is necessary to secure a sound and workable arrangement of activities. These key factors in departmentation are:

1. Take advantage of specialization
2. Facilitate control
3. Aid in coordination
4. Secure adequate attention
5. Recognize local conditions
6. Reduce expense

Because of the significance of these factors, it is appropriate that we examine in more detail typical situations to which they apply.

Take advantage of specialization

Functional specialists. Specialization is such a widely recognized characteristic of modern enterprise that it needs little emphasis here. The use of specialization in organization is illustrated by the familiar division of a business concern into sales, production, finance, and accounting departments, and the division of an accounting department into units such as accounts receivable, cost accounting, and analysis of reports.

The advantages of this "division of labor" include the fuller use of the distinctive abilities of individuals. Each person has strong points and weaknesses, and by assigning work in accordance with these different abilities it is possible to secure greater efficiency. Moreover, through concentrated attention on a limited type of work, an individual develops skill that enables him to increase his output even more. Frederick Taylor's discussion of functional foremen emphasized the benefits of specialization in managerial tasks and helped to promote the concept of division of labor for executives as well as for manual workers.

In accordance with this concept of specialization it may be desirable to group together in one administrative unit all persons performing the same kind of work (typing, carpentry, drafting), or all people doing work requiring similar abilities (engineering, sales promotion, machine maintenance). In each instance the activities are grouped so that the work of the operators and/or the executive is specialized.

Other types of specialization. Besides functional specialization, just discussed, it may be desirable to become expert in some other important body of knowledge. For instance, one company dealing in industrial polishing supplies divided a major part of its activities on a product because it wasn't reasonable to expect a man to have technical and commercial knowledge regarding pumice, steel wool, chamois skins, sponges, and felt-polishing wheels. The company had a number of highly specialized men, but the basis of specialization was on product rather than on function.

Similarly, the work within purchasing departments is frequently specialized by products rather than functions. On the other hand, the work of a sales department may be divided between export, industrial, and residential sales, with experts in each type of work. In fact, it may well be argued that a legal division or traffic division represents as much a specialization on a body of knowledge as it does on type of ability.

Since there are a number of forms that specialization may take, there is an ever-present problem of what kind of specialists to seek. In general, we try to minimize the range of abilities or knowledge required of the specialist. Thus, a company dealing with quite different products, each of which requires technical knowledge, may find product specialization practical; whereas another company whose products are all made by the same process and go to the same type of customer may find shifting from one product to another an easier transition than going from production to sales, and thus will have its activities specialized by functions. The way in which executives have been trained, both in academic institutions and within the company, may affect the form of specialization that appears to be most practical.

Where the choice of specialization is not clear cut, other organization factors such as ease of control or need for adequate attention may throw the balance one way or the other. The fact that there is choice as to the basis of specialization, however, does not lessen the desirability of some form of concentration, and the more homogeneous these groupings can be, the greater the skill that is likely to be developed.

Facilitate control

One of the basic tasks of administration is controlling, that is, assuring that performance conforms as nearly as possible to plans. Controlling is discussed in detail in Part V, but it is important to note here that the grouping of activities may either complicate or simplify the executive's task of control. Departmentation may have a direct bearing on independence of checks, clear-cut accountability, telling comparison of results, or ease of supervision.

Independent checks. As a general rule one activity intended to serve as a check on another should be under a separate executive. Quality inspection cannot serve its purpose well if it is under the direction of a foreman who is also being pressed for volume output. In the same way, where accounting records are being used as a control over the flow of cash, it is desirable to separate record-keeping from cashiering. How far up the executive pyramid this separation should be maintained is another question that we will discuss later.

To cite another case of the need for independence where checking is involved, it is neither fair nor realistic to expect a man to report on the unfavorable performance of an individual who at the same time serves as his boss.

Deadly parallel. In some situations it is possible to facilitate control by establishing two or more operating units in "deadly parallel." Thus, chain stores or consumer finance companies with many somewhat similar outlets may establish zones or districts of comparable size and characteristics. Then sales, expenses, and other results may be easily compared, and the executive with an unfavorable result has a hard time showing that "it can't be done." While such comparisons do not do the entire job of providing control standards—for example, all divisions may have high operating costs—they can be very helpful in this regard.

This particular arrangement is applicable, of course, only to those enterprises that have comparable activities in two or more locations, plants, or products. Even in railroad operations some of the lines lay out their divisions so as to permit one superintendent to concentrate on metropolitan areas, another on mountainous regions, and perhaps a third on level plains; other lines, however, have made very effective use of the "deadly parallel" concept.

Clean break. Another way that departmentation can assist or complicate control is by providing a "clean break" between operating

responsibilities. When there is a clear and natural division between the work of one department and that of another, it is easy to decide which executive is accountable for results; when the work of two divisions or sections is interrelated, placing responsibility is much more difficult. For instance, traffic and warehousing are often placed under the same executive, certainly not because of similarity of work, but because it is desired to have a single executive with full responsibility for the movement of finished goods to the consumer.

A clean break between activities that are actually performed together, or by the same individual, is very difficult to achieve. Thus, if salesmen of a furniture company handle all of its products, the duties and responsibilities of a bedroom furniture section, a living room furniture section, and a dining room furniture section are difficult to define. Likewise, one of the major drawbacks to the establishment of a public relations department is that, aside from relatively minor publicity activities, public relations cannot be separated from other operations.

The possibility of setting up planning and advisory units for such functions as public relations and personnel while leaving the execution of the plans to the operating people will be considered in Chapter 11. Under such an arrangement at least the operating responsibility can be assigned to cleanly separated divisions; there still remains the question of whether the activities of the planning units can be defined clearly enough to avoid confusion and dual responsibility. Often it is necessary to arrive at a compromise between the desire for specialization and concentrated attention on the one hand, and a clean break that will facilitate control on the other.

Ease of supervision. Physical convenience of supervision is another aspect of control that should be considered when grouping activities. For instance, when accounting and warehousing activities are performed at a branch or district office, they may be placed under the supervision of the district sales manager rather than assigned to the controller and production manager some hundreds of miles away. Likewise, all selling activities on, say, the first floor of a department store may be placed under one executive, or all the production activities performed in a particular building may be placed under a superintendent. Such arrangements may be made even where coordination is not a significant factor simply because the executive on the spot can supervise and control the operations so much more effectively than even a more skilled person some distance away.

The effect on executive control, then, is clearly one of the factors to be considered in grouping activities into divisions, sections or other organizational units. A clean break between responsibilities, perhaps the deadly parallel, or independence for checking, and occasionally the physical convenience for supervision are all practical considerations in departmentation.

Aid in coordination

Interrelated activities. Quite different activities may be grouped under a single executive because they need to be closely coordinated. One of the principal reasons why many stores place the purchase and the sale of style merchandise such as women's dresses under a single executive is the need for synchronizing the time of purchase and selling effort and for relating customer preferences to the selection of merchandise. In manufacturing enterprises it is not uncommon to find raw material inventory control and purchasing under the same executive, even though the nature of the work is quite different; here it is important that a knowledge of stock on hand and rate of use be related to the ordering of new supplies. To cite still another example, a man in charge of a construction project may have under his direction such diverse activities as the purchase of sand and cement, the installation of air-conditioning equipment, and the selection of color harmony to be used in the foyer. Here, as in the other illustrations cited, the need for coordination becomes a dominant factor in the grouping of activities.

Common objective. Sometimes it is a particular objective or purpose that guides the grouping of activities. Within a personnel department, for instance, may be found such diverse activities as cafeteria operation and employee counseling. They are related because they are two parts of a more general program that seeks to provide the enterprise with effective and enthusiastic employees.

Similarly, it is common to find in electrical appliance companies that the repair service is an integral part of the sales department, even though the nature of repair work is much more akin to production. The primary purpose of the repair service is to help in making sales and in developing satisfied customers who will boost the product to their friends. Sensitiveness to consumer needs and desires is much more likely when the activity is made a part of the department that is selling goods to consumers.

Unity of purpose plays an important part in smooth relationships

and voluntary coordination. Departmentation may seek to capitalize on this force.

Most-use criterion. When grouping activities into organizational units, the administrator often finds a number of "orphan" operations. For example, service activities such as messengers, central files, or purchase of supplies in a financial enterprise certainly do not deserve status as major operating divisions, and there is no compelling reason for placing them in any specific spot in the organization structure.

In such circumstances the "most-use" criterion may be useful. Thus, if it is the sales department, or the accounting department, that makes the most use of central files, the filing operation is attached to that department. Likewise, the reception desk may be made a part of the purchasing department, sales department, or personnel department, depending upon which has the most callers and relies most frequently upon the receptionist to provide initial information and advice. Fundamentally this most-use idea is one of coordination, because the greatest need for coordination will arise between the so-called orphan activity and the major department that makes the most use of its service.

Departmentation is only one of the means for securing coordination, as will be explained more fully in Chapter 22. Consequently, if grouping activities together to get coordination involves heavy sacrifice of other benefits, alternative ways of obtaining united effort should be considered at the same time. Nevertheless, when coordination is crucial or difficult, organizational arrangement is likely to be one of the most practical ways of achieving it.

Secure adequate attention

If a particular activity is unusually important to the success of an enterprise, it may deserve special recognition in the organization. Not only is the activity likely to be placed in a separate division, but the more important the activity, the higher in the administrative hierarchy is the division attached.

This principle is illustrated by the position of inspection in various companies. In a broom factory the production foreman himself may do the inspection; in a textile mill, where quality control is more important, the inspection may be done by a separate section reporting to the mill superintendent; in an aircraft plant, where reliable quality is vital to the success of the enterprise, the inspection may report to

the general manager, or certainly to a vice-president in charge of production.

The same tendency exists in other fields; for example, when advertising is relatively unimportant it may be a section under the sales-promotion manager, whereas in a department store the president of which considered advertising the key to success, it was a major department reporting directly to the chief executive. Again, the position of purchasing may range all the way from local operating managers to the president, depending upon its importance to the enterprise. In this area a distinction is sometimes made between the type of product purchased; relatively unimportant operating supplies may be purchased locally, whereas the principal raw material, such as tobacco for cigarette manufacturers, cotton for a textile mill, or crude oil for a refinery, is purchased by a unit reporting directly to the chief executive, if not by the executive himself.

As an activity becomes more or less important due to economic changes, its position in the organization structure should change. Thus, as emphasis in American business shifted from production to selling in the 1920's, there was a marked rise in the status of the chief sales executive. More recently the increased emphasis on human relations and the rise of strong unions has greatly increased the number of companies in which the personnel executive reports to the top operating official.

The "adequate-attention" criterion is important because of two natural human tendencies. An executive or an operator with a variety of duties cannot give first consideration to each of them, and through pressure of work or lack of interest it is entirely possible that one or more of the duties will be slighted. If the activity—for example, advertising, purchasing, traffic, or industrial relations—is made the sole or primary duty of a particular division, it is sure to receive the attention of at least this unit in the organization. It may be noted in passing that this reason, along with the benefits of specialization, are the chief justifications for many service, advisory, and other auxiliary divisions.

A second consideration is the difficulty of communication through several layers of supervision, a characteristic of human association which is discussed more fully in connection with span of supervision (see Chapter 15). If an executive considers a particular matter of such importance that he personally wants to review the facts and participate in the decision with respect to it, then an organization that provides for direct access between this executive and the division

handling the matter simplifies the communication. The facts and recommendations may be presented directly to the executive with less risk of omissions and misinterpretation than occurs when an intermediate executive presents the case; and the executive has more assurance that his orders or his plans will be properly understood and carried out.

The executive can rarely apply the adage, "If you want a thing done right, do it yourself," but he can secure adequate attention by placing the important activity in separate organizational units and then tying these units in at a relatively high place in the administrative hierarchy.

Before leaving this point of adequate attention, it may be noted that this criterion often clashes with other considerations and may call for some compromise to secure the optimum arrangement. For example, the separation of an activity and "moving it upstairs" may create problems of coordination at the operating level. Certainly when an activity like negotiating a contract with the labor union gets far removed from the location where the work takes place there is real danger that the agreement will not be adapted to actual operating conditions. Also, the adequate-attention criterion tends to break up a basic pattern in the organization structure; thus, where the major operating divisions are based on products the segregation of a particular function makes a rift in the pattern; or, the establishment of a separate product division in a predominately functional organization may cause confusion. In such circumstances it is necessary to weigh the benefits of more adequate attention against the difficulties of coordination or confusion that may result.

Recognize local conditions

Perhaps this factor should not be listed at all, because there is a tendency to give it too much rather than too little attention. From a practical standpoint, however, the adaptation of the departmentation to the personnel available and to the operating conditions makes a lot of difference in the effectiveness obtained.

Adjustments to available personnel. Important in this connection are the personalities of the executives who will staff the organization. For example, a careful review of the organization structure of one hosiery company showed a need for a single sales executive who would be responsible for advertising, sales promotion, direction of the salesmen, active participation in line building, pricing, control over

finished-goods inventory, and related problems. However, the company had a sales-promotion man who was original and creative but lacked the stability and analytical ability to regulate inventory, set prices, and administer a large group of people. And, on the other hand, it had a sales supervisor who did an excellent job of directing the salesmen and making contacts with customers, but had very little originality or sense of design. Neither man was qualified for the top position, each was too valuable to dismiss, and the introduction of an additional executive above them would have been both expensive and disruptive to morale. Consequently, it was decided to have both men report to the general manager, recognizing that he would have an additional burden of coordinating sales activities.

Astute observers of organization have repeated time and again that organization should decide the need for personnel rather than have personalities dictate the form of organization. An organization built around personalities is likely to give too much emphasis to some activities and not enough to others, and there is need for a major reshuffling of duties each time an executive retires or is promoted. The best practice is to design an organization that will best serve the purposes of the enterprise, and then select executives who are qualified for the positions created.

Desirable though this sequence may be, it may not be practical, particularly in a small company. Executives with the required abilities may not be available, except at great expense of money and morale, as in the instance cited above; or there may be men of unusual ability who can carry more duties than contemplated in the theoretical organization. In such circumstances a modification of the original plan to fit the men available may be the best arrangement. The least damage will be done if these adaptions are recognized as temporary provisions and plans laid for a return to a more logical pattern when replacements are necessary.

Recognize informal groups. Another local factor to which adjustment may be wise is the pattern of informal relationships that exist among employees. The sociologists lay great stress on what is sometimes called "informal organization"; that is, the social grouping and relationships that inevitably arise when people are associated together. These informal groups may arise from a common interest in baseball, similar family backgrounds, racial or religious factors, age, moral code, political beliefs, or any factor that promotes friendly association; and because of their informality a single individual will belong to

several such groups and may drift in and out of still others. Since these social relationships have an important influence on the effectiveness with which the people work, they should be recognized in the establishment, and particularly in the staffing of an organization.

Just as it is true on a ball team that there are certain combinations that click, so too will a given arrangement of duties work well or poorly with particular combinations of people. The now classic Western Electric Company experiment showed that the mere change of seating arrangement of five girls reduced their combined output by 20 per cent; and there is no reason to suppose that the social relationships do not have as strong an influence on the behavior of executives. Here again it is desirable to set up the organization structure and then insist that positions be filled by individuals who are congenial with one another; but, in a given situation and with a limited number of candidates to choose from, sometimes more effective results will be achieved if the organizational pattern is adapted to these existing social groups. It should be noted, however, that just as certain abilities may be developed within an individual by training, likewise it is possible to modify at least to some extent the social groupings. This point will be considered further in the chapters on supervision.

Where a closely knit, informal group is present, an organization change that upsets this group may cause considerable dissatisfaction. In such situations the advantages of making the shift should be substantial, and special effort should be made to get the group to see why the change was necessary.

Full-time jobs. Still another inherently local consideration is the need to combine activities into full-time jobs. For instance, in a small company the duties of chief accountant and treasurer may be consolidated because there are not enough duties to keep a high-calibre man busy in either position unless he spends a large portion of his time on routine work that can easily be done by a clerk. Sometimes one will find such miscellaneous responsibilities as supervision of telephones or messengers assigned to a given executive for no other reason than that he was carrying a relatively light load.

In still other situations it may be desirable to centralize the activities of some production or office operation so as to justify the investment in special equipment, or to utilize raw materials effectively and get quality discounts. In all of these situations the organizational pattern that otherwise appears desirable is adjusted and adapted to meet the local conditions.

Reduce expense

By no means unimportant in the process of departmentation is the consideration of expense. The creation of a public-relations department, a separate purchasing division, duplicate accounting units in each of several plants, a number of self-sufficient product divisions, or other elaborations of the organization pattern all cost money. Additional executives may be required and with them more office space, secretarial help, and other services. So, when two or more arrangements are possible, one of the things to think about is the number of executives and operating personnel required, and their respective salaries. The least-expensive arrangement is not necessarily the best one if it is relatively ineffective. But if a more elaborate arrangement is adopted, its additional benefits should very clearly exceed the additional expense.

This matter of expense may influence organization at all levels. For example, in the retailing of milk and providing residential laundry service, it is almost universal practice to combine both selling and credit work, because the expense of having specialists in each field contact the customer for relatively small amounts would far outweigh the benefits that might be secured. Similarly, simplification in office procedure can often be obtained by assigning two or more operations to a single individual. Such combinations of duties may require the employment of more-versatile and higher-paid personnel, but significant economies are secured in getting the work to the employee (or the employee to the work), and the improved coordination with respect to a particular transaction is likely to offset any lack of specialization.

At higher levels the expense is often a major factor in the decision to establish a service unit. For some divisions such as purchasing, the financial savings obtained by the central unit may be estimated with some degree of accuracy and balanced against the direct expense; unfortunately, the burden of additional red tape and inflexibility, which should be included as part of the expense, is almost impossible to measure in financial terms. The benefits of other specialized divisions, such as employee training or public relations, defy accurate measurement; and here the expense of the proposed division must be balanced against an intangible benefit. One of the most difficult decisions of the administrator is to determine to what extent, if at all, his

enterprise or department is warranted in setting up a more elaborate and specialized form of organization.

When
Grouping and Reassigning Activities
into Administrative Units,
Seek the Optimum Combination of the Following Benefits:

1. Take advantage of specialization
   - Functional specialists
   - Other kinds of specialists
   - Special equipment
2. Facilitate control
   - Independent check
   - Deadly parallel
   - Clean break
   - Ease of supervision
3. Aid in coordination
   - Interrelated activities
   - Common objectives
   - Most-use criterion
4. Secure adequate attention
5. Recognize local conditions
   - Available personnel
   - Informal groups
   - Full-time jobs
6. Reduce expense

The importance of each point must be determined for the specific situation at the given time.

FIGURE 16. Basic Factors in Departmentation.

SUMMARY

In every enterprise of any size, activities must be grouped together into divisions, department, or other units for purposes of administration. Experience has indicated that this "departmentation" can often be based on products, location, time, customers, processes, or functions.

These common patterns are highly suggestive, but they provide no complete answer because they can be used in numerous combinations, and there is no clear-cut guide as to just what should be included in each category. Therefore, an administrator must build an organiza-

tion suited to his own particular circumstance, and in so doing he must weigh one possibility against another.

There is need to keep an organization well-adapted to current operating conditions. The people who fill the positions may be promoted or transferred to another job. Shifts in competitive conditions may make functions such as purchasing or advertising more, or less, important. Changes in volume, technology, or other conditions take place frequently. The executive must be continuously alert to such changes and decide whether they call for at least minor adjustments in his organizational arrangements.

In this balancing and refining process, which is the more difficult aspect of departmentation, there are a number of underlying factors that deserve careful consideration in almost every instance. The administrator should take advantage of specialization, facilitate control, aid in coordination, secure adequate attention, recognize local conditions, and reduce expense. (See Figure 16.) All of these factors cannot be achieved to a maximum degree at the same time; so the wise administrator seeks an optimum arrangement in terms of his particular objectives and the particular situation in which he operates.

Departmentation is also influenced by the use of staff and functional authority relationships, the decentralization of authority, the span of supervision, and a desire for a consistent or symmetrical organization structure. These aspects of organization will be taken up in succeeding chapters.

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CHAPTER 9

SERVICE DIVISIONS

IN SETTING UP and refining an organization it is helpful to distinguish between those departments, sections, or units that are responsible for the performance of major operations and those auxiliary units that are established to aid and facilitate the work of the first group. The auxiliary divisions are essentially service units; their existence is justified only if they assist the operating departments to work more economically or effectively.

A great variety of such service divisions may be found in business enterprises. For instance, a manufacturing concern often has a traffic division so that the production and marketing departments will not have to be concerned with problems of moving goods to and from the plant. In financial establishments, the purchasing division typically functions as an auxiliary service for all other departments. Companies often have a legal division that handles the bulk of the corporate legal problems and works with outside legal counsel on special issues; these are technical matters that the operating departments are rarely qualified to handle.

A market research division may provide information and advice to district sales managers, the advertising manager, or the engineer designing a new product. Warehousing sections are found in most distribution and manufacturing establishments. Separate office-service sections to provide duplicating, telephone, messenger, mail, filing, and similar services are very common. A separate unit to provide maintenance and janitorial service is likewise a typical arrangement. These examples, by no means a complete list, indicate how prevalent is the use of auxiliary divisions.

The size and nature of activities of an enterprise will determine the extent of its needs for separate auxiliary divisions. Numerous articles and books can be found in the management literature extolling the benefits of a separate division for one or another of the auxiliary services. Frequently the writer of such an article is employed in a

division such as he is advocating, and he quite naturally cites illustrations of enterprises where this particular form of organization has been beneficial. If all such advice were accepted by a single company there would be an array of specialized helpers far outnumbering the actual doers. In practice there is no categorical answer as to the most desirable duties and position of a purchasing division, legal office, warehousing section, or other auxiliary unit. Each company should establish such divisions in accordance with its own needs.

Three fundamental issues that arise in this connection are the following:

1. Can the particular activity be separated advantageously from basic operations?
2. Should the segregated activity be combined into a single division, and, if so, where should it be attached in the organization structure?
3. What should be the relationship between the auxiliary unit and other parts of the organization?

Separation of service activities

The desirability of separating service activities from basic operations is really a special case of departmentation. This topic has already been discussed in the previous chapter, and the factors that typically decide such questions were considered in some detail.

Advantages of service divisions. Generally, the reasons for segregating service activities focus on the advantages of specialization and the need to secure adequate attention. Special skills and knowledge are clearly a factor in the establishment of a statistical, traffic, real estate, legal, or engineering division. In most situations, problems of this sort do not occur often enough to warrant the employment of operating men with technical competence in these specialized areas.

In addition to the matter of technical competence, it is likely that the sales, production, or other operating executive will be so involved with his major activity that the minor activities and those that occur infrequently will receive scant attention. This is not necessarily a criticism of the executive, since it would not be efficient for him to spend a high proportion of his time on such matters as office services, purchases of supplies, warehousing, or routing traffic. In other words, the operating executive who is relieved of responsibility for auxiliary activities can often perform his primary task more effectively.

Disadvantages of separating services from operations. The reasons for not separating the service activities usually center around problems of coordination and of overhead expense. Some service activities,

such as janitor service, warehousing, and traffic, present no particular difficulties of coordination if separated from basic operations. However, statistical computations, internal transportation, legal review of activities, and a large part of personnel work typically are very closely related to day-to-day operations; the performance of such work by a separate division creates additional problems. Where the need for consistent and synchronized action is frequent, it may be wiser to sacrifice some skill in performance to secure greater harmony.

In this connection it should be noted that one danger of functional specialization, such as is found in most service divisions, is that it leads to provincial thinking. The functional specialist (like the urban New Yorker) permits his sophistication in one area to delude him into a misconception of and disinterest in other areas. In his zeal to perform his particular specialty well, he becomes careless about the effect of his action (or lack of action) on related activities. This danger of provincial thinking is particularly serious when (1) the service division is attached high in the executive hierarchy and arrogance of men in the service unit can be checked only by a top official who has little time to consider detailed operations, and (2) when the number of so-called service divisions is large and the operating executive lacks time and energy to check up and negotiate with a variety of "helpers."

Service divisions cost money in terms of salaries, office space, and the like. They often produce substantial economies so that this expense is offset by a comfortable margin, but this is not always the case. The returns from such activities as market research, engineering, and personnel relations are often difficult to measure, and it is entirely possible to expand these and similar activities to a point where additional savings are not equal to additional expense. More likely is a failure to adjust service activities to reduced opportunities for making savings. The operation of such departments tends to be a fixed overhead item which is not reduced with a drop in volume of operations. Or, a division that originally served a useful purpose may be continued long after its usefulness has passed. This danger of an inflexible expense item should be watched when setting up special auxiliary units of the organization.

Establishment of service units, then, requires careful examination in each particular situation. In most enterprises of any size there will be several such units, but the desirability of a particular type of service unit should rarely be taken as a foregone conclusion, and the

extent of the service is almost always a topic calling for a considerable amount of judgment. There is at least one generalization that it is well to bear in mind when dealing with such issues. The burden of proof should always rest on the separation of service from basic operations. Every step in this direction increases to some extent the complexity of the organization; therefore, unless a strong case can be made for the separation, it is wise to leave the activity as a basic part of the operation.

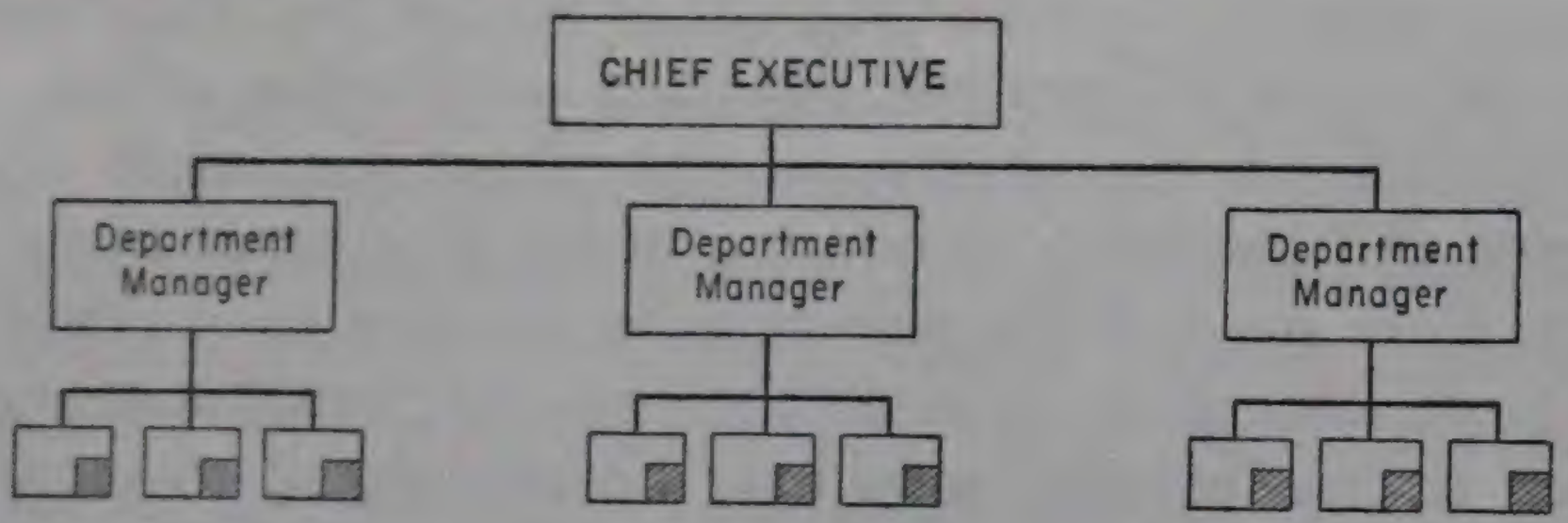
Place of service unit in organization

A decision to separate a particular activity from basic operations inevitably raises the issue of where this activity should be placed in the organization structure. Sometimes the activity is centralized in a single department that serves all other parts of the enterprise, but in other circumstances, such as warehousing in a company with a number of plants, several service units are established. The choice between one unit or several depends primarily upon a balance between the economies of a single unit and the need for providing the service in close proximity to the major operations. However, as we shall see, the matter of control sometimes enters into the decision.

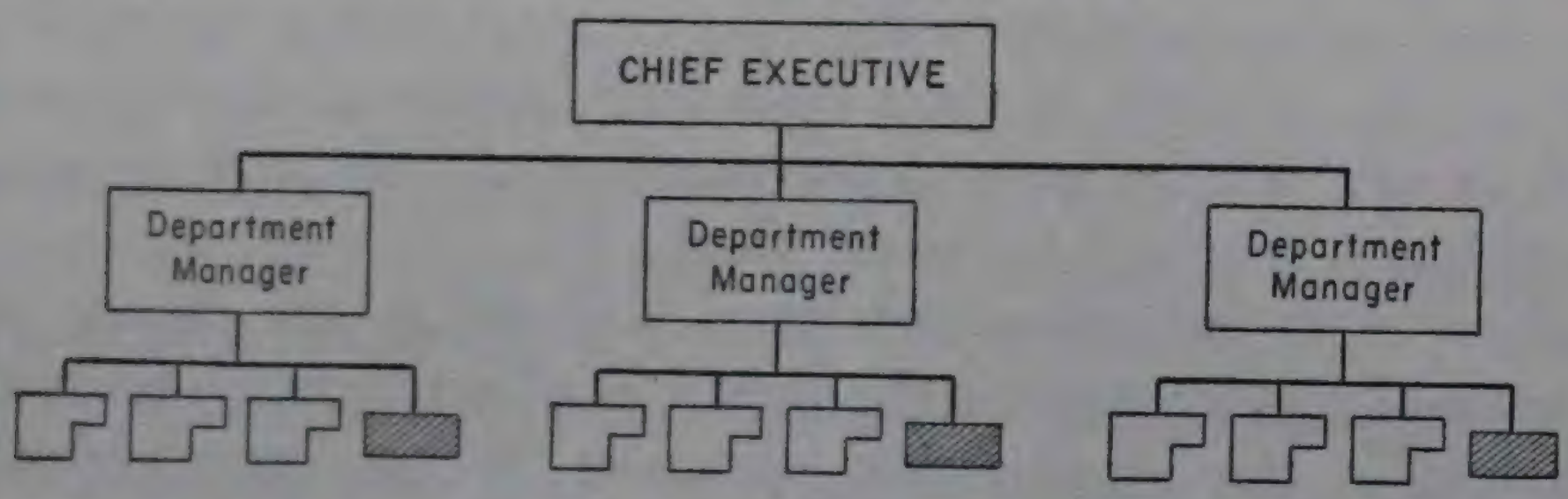
Single versus duplicate units. A single service unit is often able to secure the maximum economy, particularly in the medium- or small-size enterprises, through concentrated attention, standardization of routine, specialized technical knowedge, and distinctive skill of personnel in the centralized unit. Moreover, the volume of work may be only large enough to justify the employment of a single set of experts in, say, insurance or traffic, or a single installation of expensive equipment, as in the case of punch-card tabulation or printing. The pressure of economy of overhead may dictate a single division.

Important as these considerations of efficiency and cost may be, it should always be borne in mind that the service units must be closely coordinated with the main stream of operation. The farther removed the auxiliary unit is from the operations it serves, the greater are the problems of coordination. To cite an extreme case, secretarial work is rarely performed by executives themselves, yet the importance of coordination with respect to timing of the service, familiarity with the local situation, and particular needs of the individual executive results in a wide number of secretarial units attached to the particular operation they serve. Only where considerable standardization of secretarial service is feasible and/or where there is wide

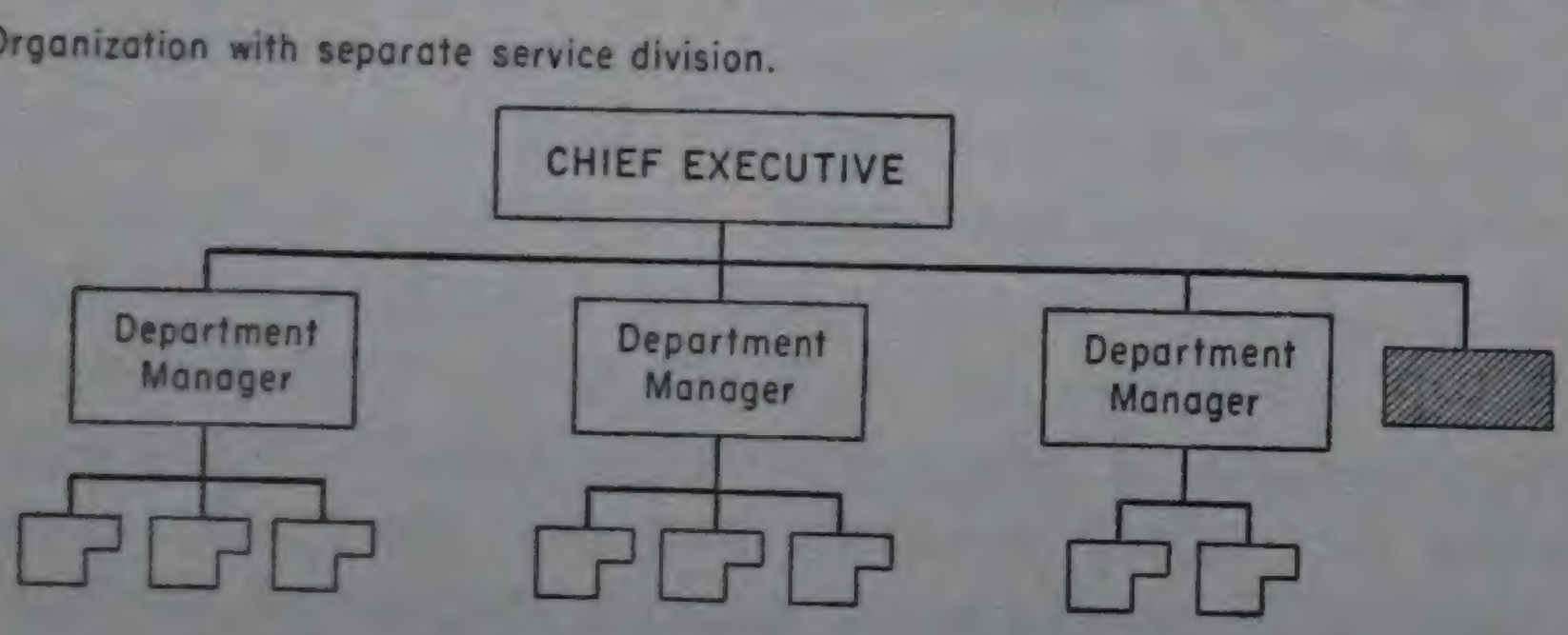
(A) Organization with no service division; each operating section performs its own auxiliary activities.



(B) Organization with service units in each operating department.



(C) Organization with separate service division.



(D) Organization with multiple service units.

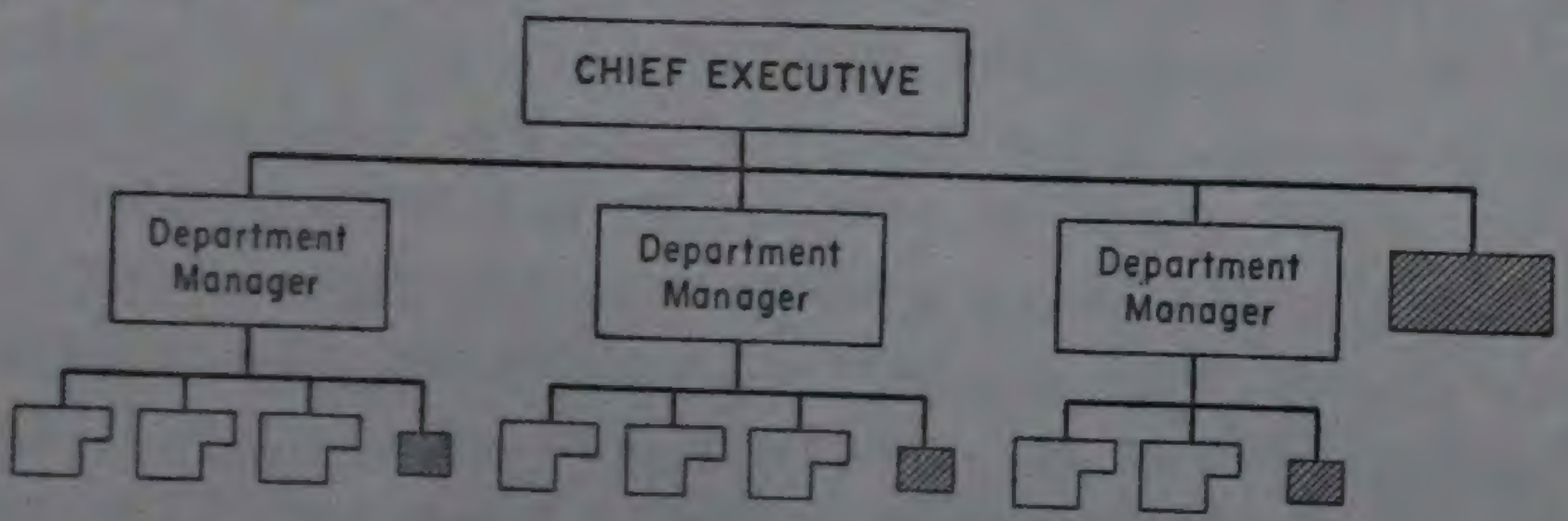


FIGURE 17. Diagram Showing Alternative Arrangements of Service Divisions. Shaded area represents any particular auxiliary activity being studied.

fluctuation in the need for such service are centralized secretarial pools likely to be found.

The need for coordination between the service division and operations often results in the establishment of several materials storerooms adjacent to actual fabrication, separate purchasing offices at each plant in a multi-plant company to procure at least some of the requirements, and localized accounting units. Moreover, if the volume of service work needed in a particular location or by a single department is large enough to provide the principal benefits of specialization, then several service units may be established to secure easier coordination with operations without sacrificing efficiency. For example, some large manufacturing concerns are able to provide engineering service in each of their operating divisions; they then either have no central engineering department at all, or limit its activities to research and special laboratory work.

Location in organization structure. Related to the choice of one versus several service units is the question of where such units should be attached in the organization structure. It has been argued that any service unit that serves several operating departments should report to the executive who supervises these departments, thus assuring fair treatment to each department. The executives of the service itself are likely to support this view because it tends to place them directly under a top executive, which gives them more social stature and more independence of action relative to subordinate executives.

It should be noted, however, that this approach followed to its logical conclusion would place a large number of divisions directly under the chief executive. Thus, the directors of statistical, purchasing, real estate, legal, office, maintenance, or janitor services could lay claim to a position, perhaps minor, at the "head table." In a similar manner there might be pressure to put several service units directly under the sales vice-president or production vice-president.

As will be discussed in Chapter 15, there are definite limits on the span of supervision of any executive, and for this reason it may not be practical to have the service units report directly to a top official. Occasionally, the service units are collected together under a single service executive, but more often each minor service unit is placed under that executive whose department makes the *most use* of the service. It is understood, of course, that the unit will continue to serve other departments, even though it is supervised by an executive who otherwise has no direct concern with their operations.

In a manufacturing firm, for example, the maintenance and janitor service may be placed under the production executive because the bulk of these activities are concerned with production facilities. On the other hand, duplicating, telephone, messengers, and similar office service activities may be placed under the sales vice-president or the controller. Similarly, a single purchasing division may be found within the production department, even though it is also responsible for the procurement of office supplies. Where there is no sharp competition for a service, this arrangement may work fully as well as having the service unit report to a higher executive.

In general, then, when it has been decided to have a single service unit, this unit will be supervised by the operating executive of the department making most use of the service (or by a general service executive if there be one) unless the activity is of sufficient importance to justify immediate supervision by a top-ranking official or by the chief executive himself.

Duties of central and of local units. In a large enterprise it may be desirable to have both a central division under a chief executive and subsidiary units in the operating departments, provided the service in question is of major importance. For example, a company of ten thousand employees often has a top personnel executive, and also personnel officers stationed in the major operating departments. Likewise, a manufacturing company with several plants may have a central purchasing office as well as purchasing agents located in each of the plants.

Under this arrangement the central, or headquarters, office typically (1) performs a limited number of readily separated activities for the entire enterprise and (2) guides, through a staff relationship or functional authority,[1] the activities of the subsidiary units in the operating divisions.

In the case of purchasing, for example, the local purchasing agent may be authorized to buy all items used in small quantities, to make purchases to meet emergencies, to watch inventories and incoming shipments so as to prevent production delays due to lack of materials, to secure realistic estimates of requirements from local operating executives, and to work with these executives on the coordination of purchasing with actual operations. The central purchasing office, on the other hand, may undertake to buy or contract for the delivery of

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[1] Staff and functional relationships are explained in Chapter 11.

all materials used in large quantities, especially when quantity discounts, reciprocities, or other benefits of unified action are involved; establish general purchasing policies with respect to size of inventories, relationships with vendors and the like; and give technical advice and instruction to the local agents. Likewise, where there are both centralized and decentralized personnel units it is necessary to define the functions of each. The local personnel officers may cover all rank-and-file personnel within the local departments while the central division concentrates on executive personnel, company-wide dealings with unions, personnel research, and similar activities.

Occasionally, these local outposts are under the direct supervision of the central office, their only distinction from the central unit itself being their physical location in an operating department. Where independence from operations is desired, as in the case of auditors, this may be a practical arrangement. Usually, however, it is preferable to have the local unit a part of the "team" under the local operating executive, with only indirect supervision from the central unit.

Dangers in multiple unit setup. Since this arrangement of a central service unit plus corresponding outposts in operating divisions has the beguiling appeal of providing the benefits of both a single division and of units closely associated with operations, it is well to be fully aware of the implications of the arrangement. Usually, the central unit is expected to do some of the planning for the local units. The desirability of centralization of planning, contrasted with decentralization, will be discussed in Chapter 12, and it is sufficient to note here that there is real danger of too great a degree of centralization, particularly if the headquarters unit has excess personnel.

Also, there almost inevitably arises conflict of loyalty on the part of the service unit in the operating department. Often the real burden of selecting men for these posts rests with the central unit, and the chances of favorable transfer and promotion are determined primarily by the central unit. The local-unit man receives many of his instructions from headquarters and may well receive more sympathy and understanding of his problems from this source. As a result, he may feel more loyalty toward his central staff unit than toward his immediate boss in the operating department he is supposed to serve. This "Loyalty to Profession"—or in the military service, loyalty to corps—may assume serious proportions, and there have been occasions when the service unit became so strong that it usurped the power of the operating officials. A more likely danger is that the

local servicing unit will fail to provide the assistance to the operating unit that was contemplated in the original plan.

There is a further question as to whether the enterprise can afford to have both a headquarters unit and local operating units, since this tends to increase the overhead expense. For distinctly local services, such as warehousing, telephone service, and the like, a voluntary exchange of ideas and experiences among several local units may provide as much pooling of ideas as is practical.

The place of the service unit in the organization structure depends, then, on the number of units established, the importance of the service to the total operation, the ease or difficulty of coordinating the service with actual operations, and, for large enterprises, the desirability of having both a central unit and local units.

Relation of service units with other departments

When a service unit performs a clearly separable and subsidiary activity, its relationships with other departments are relatively simple. Thus, there need be no problems with respect to janitor service, duplicating service, or arranging for the transportation of goods. Once there is a clear understanding of what services are to be performed in the separate unit, there is continuing need only for ascertaining requirements and checking to be sure that services are performed on time and in a satisfactory manner. As already indicated, the operating executives are often glad to be relieved of the responsibility of directing these somewhat specialized activities.

The relationships are more complicated, however, when the service unit also takes on a control function, and when it undertakes to set up a plan that is to be executed by the operating department. Each of these types of relations will be explored briefly.

Use of concurrent authority for control. Sometimes the role of the service division extends beyond assistance that is requested by the operating department. The service division may be asked by a top executive to approve the desirability of proposed actions by operating executives. For example, the printing division may not only process the material requested, but also advise and *approve* the wording, format, paper, color ink of ink used, and similar features of the proposed documents. Here the printing division is attempting to secure uniformity in presentation, perhaps improvement in quality, and certainly economy in printing costs.

A similar situation arises when the purchasing department not only

does the actual procurement of the goods needed, but also joins in the decision that the goods requested are actually necessary in the particular quality specified. Such situations may, at first glance, appear to be a lack of clearly defined responsibilities, and this all too often is the fact. The arrangement, however, may be created intentionally. The service unit is given an added responsibility for control, and for this purpose is given *concurrent* authority. Both the operating department and the service division must concur on the desirability of the action before the service division proceeds with its function.

The need for an inspector's approval before goods are shipped or moved on to a further stage of processing is familiar in manufacturing and distribution enterprises. But, it is important to define the grounds on which approval may be withheld. Can a man who approves the printing of new forms, for example, refuse to give his O.K. because he is not in favor of the activity for which the form is designed, or is he merely to confine his attention to format? Does a procedure requiring "legal approval" of all new contracts empower the company lawyer to pass judgment upon the strategic and economic soundness of the transaction being recorded? Should the personnel department's authority to approve all transfers and promotions enable it to hamstring a change in organization? Let he who hath not experienced thwarting interference from such sources as these take heed and beware of concurrent authority.

The use of service divisions for control purposes often leads to delay, since difference in opinions must be resolved, either by negotiation or by appeal to higher authority. If several levels of supervision are involved, this may mean a series of negotiations and sometimes difficulty in securing the necessary time from the final arbiter, the common executive. Also, there is confusion of responsibility, not for action taken, since both the operating department and the control unit have concurred in such a decision, but for failure to take action. If there is not agreement, then often nothing happens. And yet it is difficult to place responsibility for this failure of agreement.

Consequently, a service division should be given a control duty only when it is very important to guard against mistakes. The grounds upon which approval may be withheld should be carefully specified, and the arrangement should probably apply only to actions where some delay will not seriously hamper operations. The authority of a personnel department to approve the transfer, promotion, or dis-

charge of an employee, the authority of a legal department to approve each contract from a legal (not substantive) point of view, the approval by a controller of major capital expenditures from the point of view of adequacy of approved budget—these are examples of situations that normally would meet these tests. Of course, to the extent that the service divisions are placed within the operating department and the operating executive has authority to override their veto, both effectiveness of the control and the dangers of its abuse are reduced.

Combination of service and staff activities. A somewhat different complication arises when a service unit prepares plans to be executed by the operating or other divisions of the company. Here we find that the service division assumes the role of staff, which will be defined and explained in Chapter 11. As is noted there, the recommendations of the staff become effective either because the operating executive voluntarily accepts them, or when they are issued by (or in the name of) a senior operating executive. Occasionally the staff unit may be given functional authority, although for reasons to be explained this should be restricted to highly technical and relatively unimportant subjects.

It is very easy and natural for some service units such as engineering, market research, or personnel to expand their function from one of providing a purely auxiliary or supplementary service to one of giving of advice; and as this advisory activity increases, particularly if it is backed up from time to time with orders from the "big boss," the service unit becomes increasingly staff in nature. In theory it is relatively simple to draw a distinction between purely service activities and the staff work of assisting the operating executive in planning and supervising activities under his direction. In actual practice the dividing line between the two may be difficult to find, because some service units perform both functions.

A personnel division exemplifies the composite role that some service units play. The cafeteria, recreation, and company magazine activities represent a group of clearly auxiliary services. Activities in connection with job analysis, wage and salary administration, and union relations are primarily service, and they also contain an element of control. Training, handling of grievances, and other executive behavior that builds morale can be separated from the operating executives only in minor phases, and the personnel director functions here more in a planning and advising capacity. In certain limited areas, such as medical examinations, safety work, and recruitment

procedure, the personnel director may exercise functional authority.

Thus, this single division renders auxiliary service, controls, plans and advises, and exercises functional authority. Unless special effort is made to inform all employees of the responsibility of the personnel department with regard to *each* of its activities, confusion will prevail.

This diversity of relationships is also illustrated by a controller who, in addition to performing a large body of accounting activity within his own department, often works on budget, expense control, and perhaps economic forecasting. In some concerns, engineering is still another example.

While such composite relationships are always open to misunderstanding and simplicity in organization is highly desirable, practical considerations may dictate that the service unit be assigned a multiple task.

Summary

The separation of service or auxiliary activities from basic operations often adds to the efficiency of an enterprise. Although such an arrangement increases the complexity of the organization structure, it also permits specialized and concentrated attention on particular activities that may be poorly executed if left combined with major operations.

This segregation of an activity raises the issue of whether there should be a single service unit or several such units attached to various departments of the enterprise; and there is a related question of where these units should be attached in the executive hierarchy. The solution of this issue appears to hinge largely on the volume of work encountered, the importance of the activity to the enterprise, the people and traditions within the company, the difficulty and importance of securing coordination between the service and operating departments, and the desirability of giving the unit control as well as service responsibilities.

A further issue that frequently presents itself is just what relation the service unit is expected to have with the operating departments. The dominant characteristic of a service unit is, of course, the performance of activities that are useful in assisting the operating departments in their major tasks. In addition, for purposes of control, the units are sometimes given concurrent authority with respect to what should be done. Not infrequently, a major service of a division

is advice to the operating executive, and to this extent the service department becomes staff in nature.

Throughout the discussion of service units there has been a recurring theme of the danger that service units will become overly large, bureaucratic and inflexible in operation, unresponsive to operating needs, and add unduly to the complexity of the organization structure. This means that in their creation and administration care must be exercised to preserve the service aspects of their existence. In football terminology, we must remember who is running interference and who is carrying the ball; both have essential contributions to make, but unless the interference sticks to its facilitating role we'll come out at the small end of the score.

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Chapter 10

THE PROCESS OF DELEGATION

Administrative organization, by its very nature, creates executive-subordinates relationships, and it also creates a variety of departments and divisions that frequently are intimately related. It is vital to good administration that these relationships be wisely defined and clearly understood.

Need for clear relationships. The confusion that arises when relatiouships are fuzzy can be suggested by two brief examples. A medium-size manufacturing company employed a new office manager. In addition to supervising the office force, the man was assigned the duties of modernizing the accounting system, introducing mechanical office equipment where appropriate, preparing reports regarding various divisions of the business, and making recommendations for improvement in operations based on his analysis of the accounting and statistical data. He was "given authority" over these activities, and proceeded not only to make rapid changes in operations under his direct supervision, but in his reports on other divisions recommended as drastic changes in their activities.

Within a few months he found that members of his own division were not complying with his instructions and, in fact, threatened to resign rather than comply with certain "unreasonable" demands. These employees were encouraged in their defiance by workers in other divisions who were greatly annoyed by the presumptuous criticism of their work. Actually, the president had no intention that the office manager should proceed in this manner, and it soon became evident that the confusion over authority had reached a point where the office manager had to be removed.

A large multi-unit company, to cite another example of confused relationships, decided to decentralize authority to its various plant managers, while at the same time retaining a number of service units, including a purchasing office, for the entire company. The manager of one of the plants was interested in improved packaging for his

product, and in cooperation with a package manufacturer developed a distinctive new container. The local purchasing agent was arranging for manufacturer's delivery of the new package when the central purchasing office raised a question about the authority of the local plant to purchase such material without approval from headquarters. Before long, the authority of the central sales promotion department was also involved, and it was six months before the new package was finally approved. In the meantime, the packing, warehousing, and sales divisions were all uncertain as to how to proceed, particularly since the jurisdictional issues overshadowed the minor differences regarding the proper design of the new package.

The major issues arising in connection with organizational relationships can be grouped under three broad questions:

1. What happens to authority and responsibility in the process of delegation?
2. How can the ideas of staff and functional authority be used to advantage?
3. Under what conditions is "decentralization" desirable?

This and the following two chapters are devoted to a consideration of these questions.

In this chapter, the underlying principles of delegation will be examined. When an executive delegates a job to a subordinate there is a change in both authority and responsibility. These are slippery concepts, so it is important first to consider their meaning and how they fit into delegation. Then, the limits that should and can be placed on delegated authority will be examined. In the last part of the chapter, the usefulness of three popular principles related to delegation will be appraised. The ideas presented in this chapter are essential to understanding the relationships created in the process of organizing, and they provide a basis for the examination of staff and decentralization in the following chapters.

Different Meanings of Authority

Probably no word in the field of administration is subject to more double-talk than is "authority." The lawyers speak of authority, the maintenance engineers suggest calling in an authority on heat exchangers, the shop superintendent complains about the union usurping his authority, and the controller authorizes the chief accountant to set up a new account for deferred maintenance—yet each means something different by the word "authority." So, before discussing the

delegation of authority and responsibility, it is important to know what we do, and do not, mean by this word.

Legal authority

Authority is often thought of in a legal sense, that is, whether an individual is legally permitted to take an action. With respect to enterprises, both public and private, there is a large body of law dealing with the authority of individuals to act on behalf of the enterprise. Primary attention centers on some member of the enterprise—president, purchasing agent, salesman, et cetera—in his relations with outsiders. Who is authorized to represent the enterprise, when is a contract binding, and similar legal questions are involved.

In private business, legal authority usually is not of particular concern in the administrative process. Legal authority is assumed to follow administrative authority. In fact, if there is any question on this point it is not uncommon to give a man far more legal authority than he is permitted to exercise in actual operation. For example, the board of directors may pass a resolution giving several individuals legal authority to sign checks on the company bank account, and then proceed to set up a variety of internal controls that seriously restrict the exercise of this legal authority. Similarly, the bylaws of many corporations authorize the president to buy and sell property, borrow money on behalf of the corporation, and make other major commitments, but in actual operations it is well understood that the president is not expected to take such action without the approval of the board of directors.

This arrangement of having legal authority exceed the limits of administrative authority adds significantly to the flexibility of operations. It also follows the general tenor of the law, which as a rule does not attempt to inquire into internal administrative arrangements, but presumes that an employee active in some field is legally authorized to represent his company in that connection.

Any executive or other employee of the company should, of course, be fully aware of the actions he is permitted or required to take by law, just as any citizen is expected to know the laws of the community in which he lives. Aside from recognizing these restrictions and making sure that broad delegations of legal authority have been made, the processes of administering a business are not legal in nature. It may be noted in passing that the public administrator is in a somewhat different position, because (a) unlike the businessman.

he is presumed to have only the authority that has been explicitly granted to him, and (b) the pervasive influence of governmental action, along with a public insistence on equity in the treatment of individuals, creates a much greater reluctance to delegate legal authority to those in lower echelons.

In dealing with organization problems within private business, then, delegations of authority should be made in terms of administrative feasibility; and whatever legal authorizations may be necessary should conform to, and certainly not confine, approved administrative action.

Technical authority

It is also common to use the word authority to refer to a perso who is a recognized expert in some particular field; for example, we speak of a man as an authority on banking, and another man as an authority on internal combustion engines. This recognition of one's opinion may be called technical authority.

Technical authority has a bearing on administration, because people are inclined to accept and act upon the advice of a recognized expert in the field. For example, a young man in the accounting department may have played an active role in the revision of a cost accounting procedure. Later, when questions arise as to the treatment of an unusual transaction, this young man may be asked what should be done. His decision is adopted, not because of any position he occupies in the organization structure, but because he is recognized as the individual who probably knows most about the particular subject. In a similar manner, we accept the views of a purchasing agent regarding the practicability of substituting one material for another or the advice of a personal secretary as to a good time to ask the boss for a raise, mainly because these individuals are recognized as authorities on such matters.

It is important to remember that technical authority adheres to the individual; it goes with the individual as he moves from position to position, and is not something that an executive can assign and reassign. Obviously, when filling a vacancy in an executive position it is desirable to select an individual who is an authority on the operation involved, for then the newly appointed executive will have both administrative authority and technical authority. This is not always possible, however, particularly when the executive position covers a variety of activities.

With respect to a particular subject, it is quite possible that an

old employee, an outsider such as a union official, or an equipment salesman will have more technical authority than the executive in charge of the activity. Where this is the case, the wise executive will consult the man with technical authority and frequently will follow his advice; or if this is not possible, he will try to make clear to the employees who normally would follow the man they consider the expert that there were sound and compelling reasons for adopting a different course.

Thus, technical authority may influence specific delegation or supervision; a man may be given training and experience to help him develop technical authority; but, it is not something that can itself be delegated.

Ultimate authority

There is still another type of authority which, for want of a better term, may be called *ultimate authority*. It deals with the original source from which one derives the right to take certain actions. Thus we find the Pharisees asking Jesus: "By what authority doest thou these things?" And in more modern times we have the basic philosophical questions over the divine rights of kings, the underlying dominance of a national state, or authority derived from the expressed will of the people.

In this regard sociologists point out that, whatever the philosophical concept, it is only as a vast majority of people in a particular nation or state consent to be governed by a set of rulers or under a system of laws that government agencies (or business corporations) obtain authority to use social resources and direct individual action.

That is, in any type of society there must be general acceptance of some form of government and group of leaders before we can begin to discuss administrative organization and the delegation of authority from one executive to another. Far-reaching as this concept of authority may be, in a practical discussion of administrative processes it is necessary to assume that the social structure has located authority within certain administrative enterprises. The assumption is made that society as a whole expects these business and governmental enterprises to perform definite services, and has granted at least minimum authority for the executives of these enterprises to carry out their respective missions.

This concept of ultimate authority will be helpful when considering the treatment of interest groups in Chapter 14, and it lies at the

base of some of the discussion later in this chapter of authority over employees. In general, however, the philosophical issues of the place of authority in modern society are beyond the scope of this study.

Operational authority

Having set aside legal, technical, and ultimate authority, what then are we concerned with when delegating authority and responsibility?

Simply stated, delegation of authority is giving someone *permission* to do certain things. For instance, the foreman gives a worker permission to run a machine and to use materials; the president gives the sales vice-president permission to place a certain amount of advertising with local newspapers; or the sales manager gives a salesman permission to call on customers in a given area and to enter into contracts for the delivery of merchandise. Assuming the executive making the delegation is himself authorized to take such action, he merely extends this permission to people working for him.

In practice, an executive rarely delegates operational authority without also indicating how the permission is to be used. In other words, delegation of authority is tied in with duties and obligations, as will be explained in the next section.

Nature of Delegation

The more specialized and complex authority relationships in an organization will create confusion unless they are understood as modifications of the common relations resulting from simple delegation. Consequently, a clear grasp of the nature of simple delegation is a minimum requirement for every good administrator.

Simple delegation

Delegation takes place even in the smallest of administrative organizations. As soon as the plumber, the farmer, the manager of a corner grocery, or a real estate agent finds that he cannot perform all of the activities of his enterprise and hires an assistant, delegation takes place. In a large enterprise there are delegations not only from the president to the vice-president, but also redelegations by the vice-presidents to managers, managers to supervisors, and so on down the executive pyramid.

When the manager of the corner grocery store first employs an assistant he probably assigns to the assistant a number of the more

routine duties, explaining in some detail just what he wants done. The manager continues to make decisions regarding methods, schedules, and other phases of the operation, but he has relieved himself of at least part of the actual performance that is required. This is not all net gain, however, because the manager has now additional duties of directing and controlling the activities of his assistant. Even in this simple case the manager probably does not do all of the planning for the work of his assistant. He may specify when deliveries are to be made and in what order, and will probably be very specific about the position of merchandise on the shelves, but will leave to the assistant decisions as to how to operate the delivery truck and how to unload and unpack incoming merchandise.

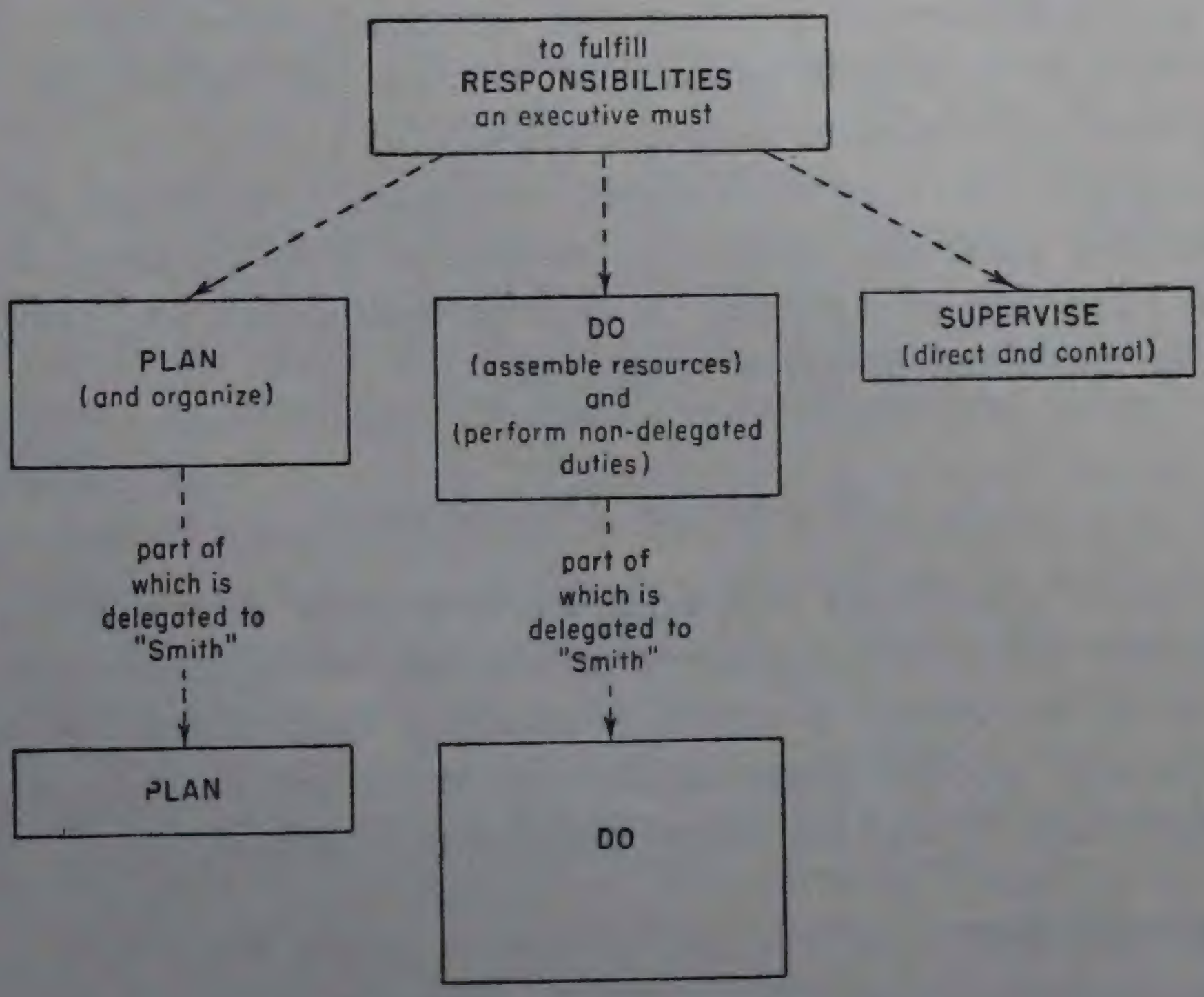

FIGURE 18. Nature of Delegation.

The simple delegation that has just been described may be generalized and diagrammed as in Figure 18.[1] In this chart the activities of the executive have been divided into three parts: planning, doing (which is used here to include assembling resources and performing nondelegated duties), and supervising (which includes both direction and control). Using this terminology, delegation normally starts by

[1] These diagrams are adapted from a similar analysis by Alvin Brown in his *Organization of Industry*, Prentice-Hall, 1947

assigning part of the doing and at least a minimum of the associated planning to a subordinate.

As the volume of the corner grocery store grows, this process of delegation is repeated. Each new assistant is assigned a certain part of the doing and part of the planning related to *his* activity. Some of the activities that the original assistant performed will probably be reassigned to new men, and the manager will delegate more of the duties that he himself formerly performed, bookkeeping and selling, for example. These additional delegations are indicated in Figure 19. It should be noted that as the manager increases the number of his subordinates, he spends a smaller proportion of his time in actually doing and a larger proportion in supervision.

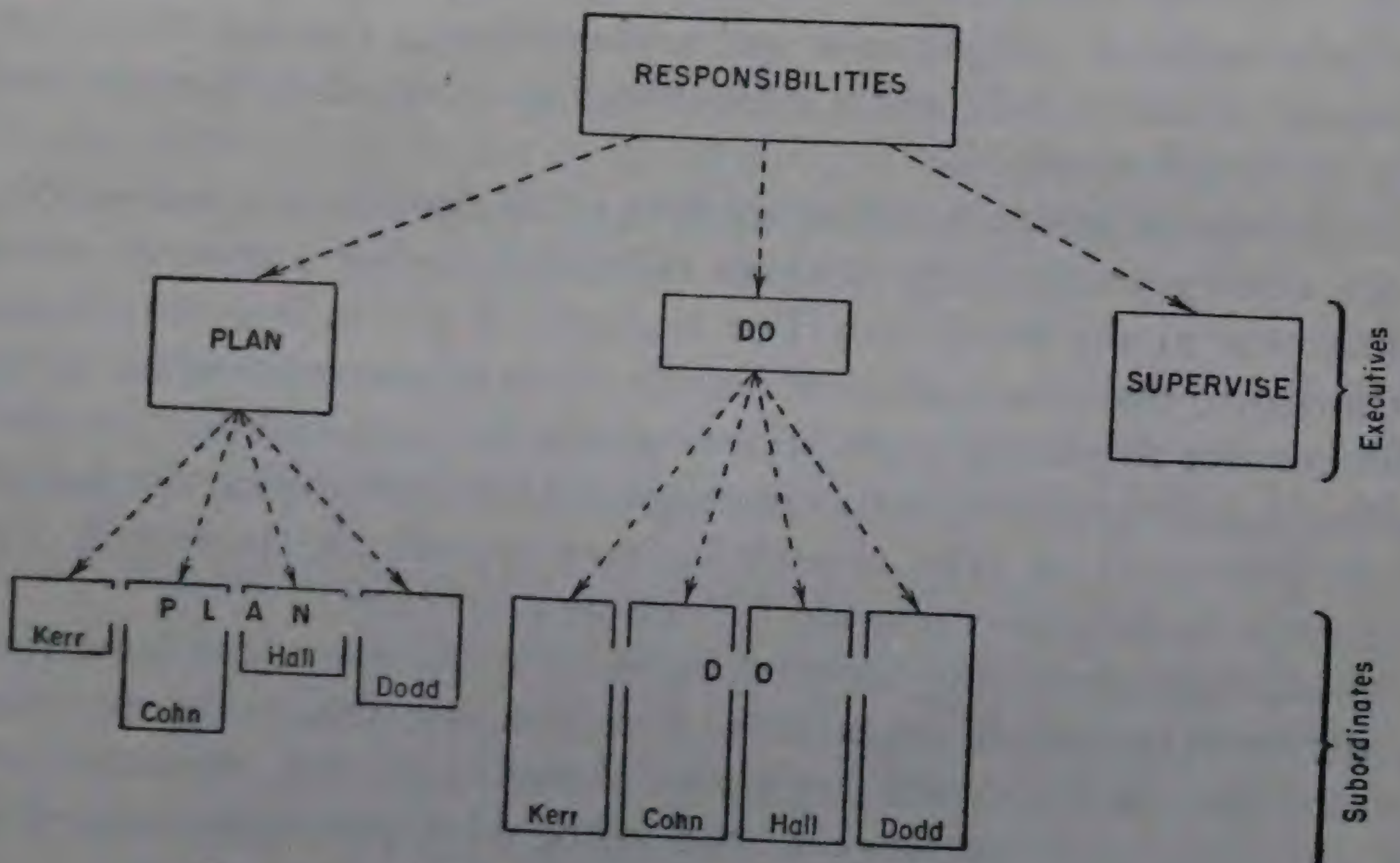

FIGURE 19. Delegation to Several Subordinates.

In making these delegations the manager must decide how the work is to be apportioned among his several subordinates. This is the problem of departmentation, which has already been discussed in Chapter 8. A second, and perhaps more troublesome, issue is how much of the planning should be delegated along with the doing. For example, should the bookkeeper be permitted to establish his own system of accounts; should the delivery man decide the timing and nature of repairs on the delivery truck; should the fruit salesman decide when to reduce the price on peaches in order to move the stock before it becomes overripe? Who should do the planning is perhaps the most

complex question in administrative organization; it is the key question in decentralization, which is discussed in Chapter 12.

Relationships created by delegation

The process of delegation has three aspects:

1. The assignment of duties by an executive to his immediate subordinates;
2. The granting of permission (authority) to make commitments, use resources, and take other actions necessary to perform the duties;
3. The creation of an obligation (responsibility) on the part of each subordinate to the executive for the satisfactory performance of the duties.

In a large enterprise there is, of course, a whole series of redelegations down to the point where the duties can be performed by the subordinate without further assistance. Where this occurs, there is a whole series of assignments and authorizations running down the "channel of command" and a corresponding series of obligations running up the channel.

In theory at least, the three aspects of delegation are inseparable, and a change in any one of them normally implies a corresponding adjustment in the other two. For example, if a man is given greater authority to make commitments in the name of a company, his duties with respect to planning are increased as is his responsibility for final results. Likewise, when a man is assigned additional duties, the actions he is permitted to take should be correspondingly increased, and he should be held accountable for the new activity.

With these three aspects of delegation in mind, we can now turn to the more practical issues of how to delegate wisely. In this connection, the need for defining limits of authority, the inherent limits on authority over employees, and recognized principles related to delegation will be considered.

Need for Defining Limits of Authority

One of the chief difficulties with respect to authority is a failure to recognize the limitations, either expressed or implied, that surround almost every delegation. Too often, an executive just "gives the necessary authority" to perform a vague group of activities without seriously considering the matter at all. In other cases, the executive has fairly definite ideas in mind, but fails to make these clear to his subordinate and others affected.

The vagueness regarding authority is all too common for foremen.

Some people conceive of foremen as managers of semiautonomous departments. This view is reflected in the first part of a definition of supervisor in the Taft-Hartley Act:

> Supervisors have the power to hire, transfer, suspend, recall, lay-off, promote, discharge, assign, reward or discipline other employees, or adjust their grievances . . . or effectively recommend such changes in the status of other employees.

Surveys of actual practice indicate that in most companies the authority of foremen is limited to recommendation of such actions. For example, in a study of one hundred companies the American Management Association found that only 4 per cent of the companies gave the foremen full permission to hire, and the authority to discharge an employee from the company without consultation with other executives was granted in only 10 per cent of the companies. Promotion and disciplinary action were likewise limited by most of the companies. The foreman, to be sure, is likely to be the key man in the management decision on such matters, but there are typically sharp restrictions placed on his exercise of authority over other individuals.[2]

The point emphasized here is not that more authority should be delegated (this issue is considered in Chapter 12), but that frequently the exact limits of what the foreman can do are indefinite and obscure.

General limits implied

The most common restriction on authority is the requirement that action be taken in accordance with company policy, procedures, and program. Thus we find one carefully worded statement of duties and authority contains the following provision:

> The duties prescribed in this regulation, and such others as may be assigned from time to time by the board of directors, the executive committee, or the president shall be performed in compliance with the company's policies and procedures relating to accounting and auditing, purchasing, engineering, organization planning, budgetary control, the legal requirements, and the company's employee, public, and governmental relations, and in full cooperation with the staff and service department responsible for these functions.[3]

Unfortunately, the requirement that action be taken only in accordance with company policies and procedures usually is merely

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[2] American Management Association, *The Development of Foremen in Management*, Research Report, No. 7, pages 15-28 and 69-71.

[3] D. H. Voorhies, *The Functions of Corporation Secretaries, Treasurers, and Controllers*, Standard Oil Company of California, 1944, page 10.

implied. A man appointed to a new position is often left to discover for himself how much of his predecessor's action was dictated by departmental or company-wide standing plans, and how much can be changed on his own volition.

Rarely is it wise to give an executive completely free reign. However, if there are general rules he is expected to observe, then it is the duty of his senior to make sure he fully understands these limitations.

Specific limits should be clear

In addition to such general restrictions, it is customary to place limits on the actions a man in a particular position may take with respect to specific types of transactions. All too often these restrictions are vague and become a source of friction within an enterprise. These specific limitations can be spelled out as is done in the following list of authority granted to a sales manager.

On Capital Expenditures—Full authority for individual items up to $2,500.
On Operating Expenditures—Full authority to authorize and approve all normal expenditures, standing fully accountable for the over-all total cost of selling.
On Maintenance of Facilities—Full authority to maintain equipment in safe and operable condition.
On Operating Features—Full authority to approve the type of operation of sales branches by salaried labor, through distributorships or through commission agents.
On Financial Aid to Distributors—Full authority to lend sums up to $5,000, where the amount is to be repaid within a five-year period.
On Commission Rates—Full authority to increase or decrease within an established schedule of maximum rates.
On Sales Aid Material—Full authority to expend up to $5,000 for any one sales division or sales district during a calendar year.
On Sales Promotional Plans—Full authority to expend up to $3,000 annually for each district. Such monies to be expended for sales prizes, dinners, and other incentives to stimulate sales promotional interest and to improve morale.
On Policy Adjustments—Full authority to make policy adjustments arising from the sale of products from such causes as contamination, improper application, improper recommendation, or to correct or adjust complaints up to the sum of $2,500.
On Organization Changes—Changes in the basic plan of organization require the approval of the Vice-President in Charge of Sales.
On Wages and Salaries—Full authority to adjust wages and salaries up to $400 per month for promotions. Merit increases or changes in established schedules require approval of a Vice-President and the salary review committee.
On Credit Administration—Full authority to approve the extension of credit to any customer up to $10,000 within established terms for payment.[4]

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[4] L. V. Bedell, "Organizing Planning," *Modern Management*, October, 1947, page 4.

Inherent Limits on Authority over Employees

Another source of trouble arises in connection with the authority it is *possible* to exercise over employees. Some executives assume that, since employees have agreed to give their services to the enterprise, authority over them can be delegated in the same way as over materials and machines. There is a very essential difference, however, between inanimate objects and employees. Of course, both materials and employees must have the qualities and characteristics that the job requires, otherwise permission to use them is of no avail; but, in addition, employees must be *willing* to do the job.

Authority to deal with people outside the enterprise works reasonably, because it is at least implied that the authority granted is only permission to negotiate and offer inducements, and does not embrace the "right of command." Authority over employees within the company, however, is usually regarded in quite a different light; instead of permission to negotiate and offer inducements, the internal relationship is one of "command." The crucial question is just what this right of command covers and whether it is something that can be delegated and redelegated, the same as permission to use equipment.

It is entirely possible and practical to delegate authority to issue instructions on behalf of the enterprise to one or more of its employees. The employee, however, reserves the right to accept or reject such orders. If he doesn't like the instructions, he can always resign; or, what is far more prevalent practice, he can malinger and go through the motions of complying but not put forth the effort needed to achieve the desired results. Faced with such a situation, the executive begins to wonder just what is the significance of permission to issue instructions.

What authority, that is permission, can the enterprise grant to enable the executive to secure compliance with his instructions? He will, of course, be permitted to use various means of stimulating genuine interest in the work to be done. If this fails, he may be permitted to resort to a number of sanctions or pressures that the enterprise can bring to bear on the employee, notably withholding pay increases or promotion in responsibility, transfer to less-desirable work, demotions to positions carrying lower rates of pay, temporary layoff without pay, and finally discharge. In many situations perhaps only the first of these actually can be made available to the executive. When an employee gives nominal compliance to instructions, it is

difficult to build a strong enough case to justify demotion, layoff or discharge, and if the insubordination is not clearcut, the effect of drastic action on the morale of other employees may be bad.

Particularly with long-service employees, some overt action is usually necessary to warrant discharge (except in those relatively few occupations, such as professional baseball, where outstanding performance is widely recognized as necessary for continued employment). Most companies today use the authority to fire only in extreme cases and as a last resort; with the increasing attention to security and "fair" treatment of employees, this right is becoming even more circumscribed. In other words, in most situations only a very restricted authority to secure compliance is delegated.

Fortunately, most employees expect to do some work in their jobs. In the United States, particularly, there is a stronge urge to "get ahead," many take pride in their work, and most are very sensitive to the social pressures of their fellow employees. Typically, they welcome and respond to leadership. As a result of these attitudes, the typical employee has a rather wide *zone of acceptance* for directions received from the designated spokesman of his employer. The sanctions that the employer places at the disposal of the executive, limited though they may be, widen his zone of acceptance.[5]

Summarizing: When an executive is delegated authority over other employees, he is given permission to issue directions to them and to exercise to a greater or lesser degree such sanctions as the company has at its disposal. This is a very significant right, but, as every experienced executive knows, it certainly is not unlimited power over behavior of subordinates. Every individual has a number of activities that, because of pride, fear, or hearty dislike, he will refuse to do; and there will be a much wider range of activities that he will do only half-heartedly. As Chester Barnard and others have observed, the only authority an executive really has is that which his subordinates are willing for him to exercise.

Unless this inherent limitation on authority over employees is recognized, delegations of authority and responsibility will get snarled up.

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[5] In later discussions of supervision and motivation a number of measures that have the effect of increasing the zone of acceptance will be considered. Just how wide the zone of acceptance is, or can be made, will depend upon the cultural patterns, the traditions within the particular enterprise, the availability of alternative employment, the policies of the enterprise regarding the use of sanctions, and the attitudes and personal relationships of the individual employees.

Recognized Principles Related to Delegation

Although the basic ideas on delegation appear simple, there are a number of difficulties that have occurred enough times in the past to call for some general rules or warnings. In addition to the points already made about the need for recognizing and defining the limits on authority, specific mention should be made of three others:

1. Responsibility cannot be delegated.
2. Dual subordination should be avoided.
3. Authority and responsibility should be coextensive.

Each of these needs some interpretation and qualification.

Responsibility cannot be delegated

Occasionally an executive will be found who thinks that once he has delegated a duty to a subordinate, he no longer has an obligation (responsibility) for its proper performance. Looking at the same attitude from another view, a subordinate may feel that once his boss has delegated a duty to him, the boss should no longer be concerned with it.

This false notion confuses two separate delegations, the one a top official *A* makes to executive *B*, and the one executive *B* makes in turn to subordinate *C*. The redelegation by executive *B* does not alter or relieve him of his obligation to his senior, *A;* he still has the same authority he had before, although he may voluntarily restrict his actions so as to keep the work flowing to *C*, and he still is accountable for the results achieved.

The redelegation, it is true, has created an additional set of relationships between executive *B* and his subordinate *C*. The flow of obligation then becomes *C* to *B* and *B* to *A;* but executive *B* can't duck out.

The same reasoning holds in other kinds of responsibility. If Mr. Davis borrows money from the First National Bank and then reloans it to his son-in-law, the transaction with the son-in-law in no way reduces the money Mr. Davis received from the bank nor his obligation to repay it.

While an executive is responsible for the actions of his subordinates, for reasons just explained, in practice some recognition must be given to the operating situation. A sales manager, for example, cannot be sure that each of his salesmen uses the best judgment in

dealing with each customer. Allowance must be made for human error, and when delegations and redelegations are necessary to accomplish a large task this possibility of error is increased. This, however, is more a matter of standards of performance than one of responsibility. The accountability has not been removed by delegation; rather, appraisal of results will be tempered somewhat by the extent to which an executive must rely on subordinates to do the work.

Avoid dual subordination

A man cannot serve two masters well. One of the most widely recognized principles of organization is that a member of an enterprise should normally have only one line supervisor; in other words, dual subordination should be avoided. The more obvious violations of this principle occur in those loosely knit organizations where an employee is not sure who his boss is and attempts to adjust his behavior to please those who presumably are in a higher status (this is something like the hierarchy of peck-rights that zoologists observe among chickens in a single pen), or in those situations where two or three individuals give orders to a single employee.

Aside from the fact that an employee is probably in a poor position to decide which orders should be postponed and which obeyed promptly, dual subordination is likely to lead to poor morale because the conscientious employee will feel frustrated if he cannot live up to what is expected of him, the indifferent employee will stop trying since he obviously can't do all that has been requested, and all of them will sooner or later be reprimanded for failing to comply with instructions. There is a saying in the Bible that a man cannot serve two masters well, and it is this same general idea that leads to a condemnation of dual subordination in modern administration.

This apparently simple concept raises some difficult questions. Among the more ticklish ones are:

1. Does the use of staff create dual subordination?
2. Does by-passing always result in dual subordination?
3. How can the use of a grievance procedure be reconciled with the concept of a single line supervisor?

Subsidiary role of staff. In the next chapter it will be pointed out that a staff man not only advises his immediate supervisor, but often advises, interprets directions, and checks the work of the operating subordinates of that executive. Whether the staff man merely gives

advice, speaks in the name of his boss, or, possibly, has functional authority, there is no doubt that he influences the decisions and the behavior of many people who are under someone else's line supervision.

Does not this create dual subordination? The answer is no; it is the line executive who is responsible for getting things done and for such use of sanctions as may be permitted and necessary. Also, if there is doubt whether the staff advice should be accepted, the decision of a line executive is controlling; he has the last word. Nevertheless, there is always the danger that the staff man will be so influential that a situation which is virtually dual subordination will be created. As long as it is recognized by all concerned that the primary function of a staff man is to assist the operating executives (those in the channel of command) to do a more effective job, trouble can be averted. Whenever staff is employed, it is important to see that this point of view prevails.

By-passing. Dual subordination may also be created by by-passing. Thus, if a sales manager deals directly with a salesman, instead of working through the field supervisor, the salesman finds himself with two bosses. In such a situation the employee usually gives preference to the instructions from the senior executive and, finding the way open, usually seeks an increasing number of contacts with the "big boss." This tends to make the employee independent or indifferent to the wishes of the man who is nominally his immediate supervisor, and it certainly places the supervisor in a difficult position, inasmuch as he may not be fully informed as to the directions given to, or the accomplishments of, the employee.

Warning against by-passing is not intended to condemn all direct contacts between top executives and employees in the lower ranks. For the purpose of building morale and to secure firsthand information it is desirable to have executives, at least occasionally, make contact with members of the enterprise two, three, or sometimes more levels below them. But, exchanging information and ideas is quite a different matter from giving directions. When it comes to issuing orders, good practice requires that the executive send them through the established channel of command, except in emergencies. The breaking of this rule leads to dual subordination, confused responsibility, and undermining of the executive who has been by-passed.

Right of Appeal. But what of an employee's right of appeal? The typical grievance procedure, formal or informal, permits an employee to carry a complaint over the head of his immediate supervisor if it

cannot be satisfactorily resolved by direct negotiation with the supervisor. The employee's hope, of course, is to get the decision of the supervisor reversed or at least modified. Some industrial psychologists place considerable emphasis on the importance of a free and open right of appeal, even though the arrangement has all the characteristics of by-passing.

On this point it is important to distinguish between two types of situations. In one there may be what the employee considers to be a violation of the employment contract, the contract including or often consisting entirely of the informal customs and mores surrounding employment in a particular situation. The second broad type of situation is one in which the employee questions the wisdom of his supervisor's instructions, and is quite aside from the conditions of employment. The grievance procedure deals only with the first of these, and, while it is admittedly a form of by-passing, the desirability of assuring employees of equitable treatment makes this an appropriate exception to the general rule.

On the other hand, the grievance procedure certainly does not contemplate that each employee may appeal any decision the wisdom of which he questions. Under consultative supervision and "suggestion systems" his opinions may be sought, but unity and efficiency in administration cannot permit an employee to challenge any or all directions he may receive. Except for questions involving a violation of the employment agreement, the integrity of channel of command should be maintained.

Authority should equal responsibility

The idea that authority and responsibility should be coextensive is another of the most widely recognized principles of organization. It recognizes, on the one hand, the unfairness of holding a man accountable for results that he is not permitted to guide according to his own best judgment; on the other hand, it recognizes that if a man is given considerable latitude of action, he should be held accountable for the wise use of this permission.

The principle is mischievous, however, in the misunderstandings it can create. One type of mistake is assuming that authority is the same thing as power, instead of being only permission, as already noted. It is often stated, for example, that a sales manager is responsible for obtaining the budgeted sales volume. He obviously cannot be given power to compel customers to purchase the stipulated quantity of

goods; general economic conditions, expansion or contraction of the company customers, action of competitors and other similar factors will have a major influence on sales volume. The sales manager can be given authority (permission) to promote, negotiate, perhaps adjust prices, or even modify the characteristics of the products; but these are only part of the influences that determine sales. Likewise, when we say that the personnel manager is responsible for relations with the union, or that the purchasing agent is responsible for delivery of raw materials on schedule at the budgeted price, we do not mean that they have absolute power over their respective fields of responsibility. We have also noted that authority over employees, while usually more potent than over outsiders, is still subject to limitations.

Moreover, the authority that can be granted wisely is usually circumscribed by operating rules and limitations. The sales manager will probably find that he can not hire anybody he wishes nor change rates of pay without the approval of the personnel department. He is not at liberty to engage in advertising campaigns and other forms of sales promotion, except within the approved budget. He is not free to add new lines of products. Company policy may dictate the location and type of customer he can cultivate. And so with all the other executives; they are given authority "within limits."

With authority thus watered down by external conditions and internal restrictions, what then happens to responsibility? Strictly speaking, the responsibility is correspondingly reduced. This is widely recognized in practice, because a man is held specifically accountable for taking reasonable action "under the circumstances." His responsibility is, in fact, not nearly so sweeping as a careless or naive statement of it suggests.

In another and a more important sense, we expect a man to have a feeling of responsibility that far exceeds any authority he has been granted. The concept of civic responsibility, or being "my brother's keeper," places a heavy responsibility on an individual without giving him permission to run the local government or direct the actions of his brother. And so in business, a man may have responsibility for sales promotion, plant safety, expense reduction, public relations, or development of new products, but only very limited authority over the use of materials or to direct the actions of other people. Results are to be achieved through presentation of facts, suggestion, and persuasion. As Chester Barnard observed,

> In any kind of organization good executives know how to get action for which they cannot be given authority of command. Nothing is more important to teach the beginner than this . . . in most organizations many members of high and low degree, who have little or no authority to command, are properly held accountable and responsible.[6]

This "sense of responsibility" involves a moral concern with conditions and results, an urge to devise ways and means of improving present conditions, a zeal to convince others of action that should be taken, patient persistence if desired action cannot be secured immediately, and a relentless watchfulness over a period of time. Such a concept of responsibility is very real and very potent, and it may operate even though an individual has no more authority than to get the facts and communicate with people whose action is involved.

In summary, then, the rule that authority and responsibility should be equal is sound, provided it is recognized that: (1) the authority that can and should be delegated is often limited and, consequently, an individual can be held strictly accountable only to the extent that actions are really subject to his control, and (2) it is entirely practical to expect a person to feel "a sense of responsibility" even though his authority is confined to studying present conditions and promoting improvements, and to hold him accountable for sensing trouble and trying to get it corrected.

Summary

Administrative organization is not primarily concerned with legal, technical, or ultimate authority; the operational authority relationships that may be created by organization are, however, of major significance.

Delegation of such authority involves three aspects: assignment of duties, granting of permissions, and creation of obligations or responsibilities. As a practical matter, delegations are almost always restricted by standing plans, by specific limits on permission granted, and by the limited authority over employees that can be delegated. Confusion will be avoided by clearly recognizing such limitations. Also, the ideas that responsibility cannot be delegated, dual subordination should be avoided, and authority and responsibility should be coextensive are useful provided they are properly interpreted.

In delegations to operating subordinates, authority to "do" exceeds authority to "plan," inasmuch as the executive typically reserves some

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[6] Review of Mr. Urwick's book, *The Elements of Administration* in *Personnel*.

of the planning for himself. The role of staff in helping the executive plan and supervise is discussed in the next chapter. The degree to which planning should or should not be reserved by the executive—that is, centralized—is considered in Chapter 12.

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Chapter 11

THE ROLE OF STAFF

One of the distinctive features of modern military organization is the use of staff. A similar type of organization can be found in both religious and business organizations, but the idea is not so clearly developed. Many business executives would probably make better use of the staff concept if they and other members of their enterprise understood the nature and requisites for its successful use. Consequently, it is the purpose of this chapter to:

1. Describe the basic role of staff.
2. Consider when staff may be used effectively.
3. Examine the requisites for successful staff work.
4. Explain the meaning of "functional authority," which may be regarded as an extension of the staff concept.
5. Note some of the special ways in which staff may be employed.

The Concept of Staff

Duties of a staff assistant

The nature of staff can be illustrated in the relationship between the president of a medium-size manufacturing company and his assistant, Jim Hull. The president was extremely busy and so he selected Hull, who had demonstrated considerable versatility in the four years he had been with the company, as his assistant.

At first, the president gave Hull only more or less routine tasks, such as analyzing the telephone bills to determine which departments were responsible for the increase in long-distance charges; scanning current newspapers and four trade journals for items of interest to the president; gathering information on the company's charitable contributions and the practice of other companies as a basis for deciding how much should be contributed to the Community Chest; digging some information out of the company records and giving it to the

sales manager for use in connection with a speech he was making at a trade association; obtaining the necessary information and mapping a reply to a complaint the president had received from one of his personal friends regarding the company's service; showing the company's legal counsel a proposed report for the board of directors and bringing back his suggestions for changes in the wording; and similar miscellaneous duties.

By turning these things over to Jim Hull, the president found that he had a little more time for major problems, and that many of the minor issues received more adequate attention than they would if he had attempted to do them himself.

After Hull had demonstrated both his dependability and his discretion in dealing with others, the president asked him to investigate a proposed change in the sales-compensation plan. "Jim, the sales manager wants to see me about this new scheme for paying salesmen. But before talking with him, I'd like to have some more facts. Will you go to the controller and find out what we paid our men last year, and just how each of them would have fared under this new scheme. Also, I'd like to know what the personnel manager thinks of it, and then see if you can find out how it compares with what other companies are doing." The information Hull assembled and summarized enabled the president to deal intelligently and promptly with an issue that had a significant bearing on the company's future sales. As time went on, the president depended more and more on his assistant to assemble and digest facts relating to problems that had come to him for decision.

The next year, when a further question regarding sales compensation arose, the president enlarged the request he made of Hull. He wanted not only a digest of the pertinent facts, but also Hull's personal recommendation as to what should be done. And, before presenting his report, Hull was asked to find out whether the other executives interested in the decision agreed with the recommendation. Thus, instead of a baffling problem, the president had before him the pertinent facts sifted and sorted, a proposed course of action from a man who was already familiar with the president's views and ways of dealing with such situations, along with either the endorsement or the exceptions, with reasons therefor, of the key individuals in the situation. The president could proceed immediately to his own appraisal of the proposal and a further consideration of the points of disagreement among his subordinates.

With this sort of groundwork laid, the president was able to dispose

of a troublesome issue after a half-hour's conference, whereas without the groundwork he personally might have had to spend considerable time in discussions with several individuals, sifting the facts, and reviewing his plan of action with the men who would have to execute it. Here was a real means of saving the time and energy of the president, and he called increasingly upon Hull to provide this kind of assistance.

A natural addition to Hull's duties was the preparation of any correspondence, bulletins, or other documents that the president had to issue to put a decision into effect. Sometimes this was done after the president had made the basic decision, but often it was possible for Hull to prepare the preliminary analysis and recommendation, secure the views of the appropriate executives, and prepare the necessary documents before the report was presented to the president. Then, if the president agreed with the recommendation, all he had to do was sign the paper.

In addition, on any important or controversial matter the president asked Hull to meet with the individuals directly affected by a decision and explain the reasons for the decision and just what was expected. As questions arose from time to time over the application of the decision to a particular situation, it was usually Hull who made the interpretation because, as the president was frank to admit, Hull knew more about the detail than he did. When the people throughout the company found that Hull was always consulted on such matters, and incidentally that it was usually easier to see him, they raised their questions first with Hull and went to the president only if there was serious disagreement over the interpretation, or to urge a change in the major decision. In the latter case, if Hull agreed that a change was needed, the president usually didn't hear of the matter until he was presented with a complete proposal for a new decision.

The president took one further step. "Jim, you've been right in the middle of this sales compensation problem for a couple of years and know my views on the matter. I wish you would keep an eye on what happens. If things don't turn out as we hope they will, then figure out what should be done and let me have your proposals along with the supporting data as you've been doing on these other issues. Unless I hear from you, I'll assume things are going along satisfactorily. In other words, so far as sales compensation is concerned, I'm going to let you do my worrying for me." As the president was able to make an increasing number of delegations of this sort, he received a very substantial relief from the pressures on his time.

Increasing the number of assistants

Before leaving this illustration, let us note two things that are likely to happen when an assistant is as effective as the one just described. If the president continues to find that he has inadequate time to do all the things that need attention, he is likely to seek additional men to assist him as Jim Hull does. When there are several such assistants, it is natural to divide work among them in accordance with their abilities and experience. Thus, if one assistant has an engineering background, he is likely to be assigned problems having to do with production, physical facilities, and related matters. Another with legal training may be assigned duties in connection with legislation, tax, sales contracts, and so forth. Perhaps the third deals with problems of executive personnel, industrial relations, training programs, and the like. Since the relationship is predominantly a personal one between the executive and his assistants, the manner in which the work will be divided among the assistants will depend upon the kinds of help the executive most needs and the capacities of those assisting him.

Beside increasing the number of assistants, it is quite possible that one or more of these men will establish small staffs of their own. Their work may be quite time-consuming, particularly if they are expected to maintain contacts with widely dispersed operations or to conduct intensive research on particular subjects. A man cannot be available immediately at the call of the president and at the same time be making a tour of the branch offices to interpret a new sales compensation plan. Consequently, in a large enterprise, it is not uncommon to find that "Mr. Hull's office" consists of perhaps half a dozen individuals.

The role staff can play

From this extended example it will be seen that staff work consists of helping an executive plan and/or supervise the activity of others. It is work the executive would do himself if he had the time and the specialized knowledge. The work is typically performed in behalf of the executive, and in a sense the staff assistants act as an extension of the executive's personality.

The duties assigned to a staff assistant may include part or all of the following:

1. Assembling facts;
2. Summarizing and interpreting facts;
3. Recommending courses of action;

4. Discussing proposed plans with various other executives and obtaining their concurrence or reasons for objection;
5. Preparing written orders and other documents necessary to put a plan into action;
6. Explaining and interpreting orders that have been issued;
7. Watching actual operations to ascertain if the orders issued are achieving the desired results;
8. On the basis of operating experience and anticipated conditions, initiating new plans;
9. Promoting an exchange of information among operating officials so that there will be greater voluntary coordination;
10. Developing enthusiasm among operating people for established policies and program;
11. Providing information and advice to operating people regarding performance of duties that have been delegated to them.

These are all phases of the planning, direction and control that, if not assigned to a staff assistant, would normally be performed by the executive himself.

In actual practice a single staff assistant is not usually expected to perform all of the phases of the executive duties; he may be concerned primarily with assistance on planning or with assistance on supervision, or if the assistant is relatively inexperienced his work may be confined to only certain aspects of these functions. Moreover, the typical staff man will concentrate on only a limited number of subject fields.

Under What Conditions Is the Use of Staff Desirable?

It should be recognized that the use of staff creates somewhat complex relationships within an organization. Simple delegation provides for the assignment of duties to subordinates; the planning of these activities may be assigned to the subordinate along with the doing or retained by the executive. A staff man who participates in the planning, and perhaps some aspects of supervision, is a third party having relationships with both the executive and the executive's subordinate. This raises many of the implications of the old adage "While two is company, three is a crowd." It is important, therefore, that the administrator give careful consideration to the situations in which this more complex arrangement will have an over-all net benefit to operations.

Special staff

The benefits of staff are most commonly acknowledged when the staff assistant has technical knowledge and skill not possessed by the

executive or his subordinates. Legal counsel, for example, is found in a great many enterprises. Both the executive and his subordinates recognize that legal aspects of a company's operations are technical and important enough to call for special advice. So the establishment of a position of legal counsel is not questioned, assuming there is enough volume of work to keep an individual busy. A ticklish question may arise, however, if the legal counsel becomes active in the direction and control of operations. A well-trained lawyer has little difficulty in showing that almost every action that is taken has legal implications, and consequently, if the role of the legal counsel is to be extended beyond giving advice, it is important that he be an individual who has a good sense of technical operations.

The desirability of an independent auditor is also widely accepted. Since the auditor is concerned with one aspect of supervision, this is not an activity that can be delegated to operating subordinates; and, on the other hand, it is time-consuming and often so technical that the executive himself cannot perform the work. Many small companies, of course, rely entirely upon an annual audit by a public accountant. Insofar as the executive regards these outside audits as an aid in his supervision, the public accountant acts temporarily as a staff man.

This use of "special staff" has been highly developed in the army, where a commanding officer is likely to have special assistants dealing with communications, medical work, legal work, military police, inspection, engineering, chemical warfare, artillery, ordnance, quartermaster supplies, religious and moral activities, or other specialties. (See Figure 20.) In government, almost every agency or department head has an assistant on "information" who watches over the dissemination of information to the public, and in recent years a number of business corporations have added a public relations man to their staff. The particular types of specialized assistants that are needed by a top executive or one of the major operating executives depends, of course, on the operations they direct.

General staff

Assistants need not be confined to narrow specialties. As was seen in the illustration of Jim Hull, they sometimes serve in an over-all capacity, dealing with those problems on which the executive needs help most at the particular moment. In an intermediate category would be those staff assistants who are continuously involved with the

main stream of administration, although they concentrate on only one phase of it. In this group would be an assistant who works on the budget, particularly if he works on substantive rather than procedural aspects. In a similar category would be an assistant who works on long-range programs, and sometimes we find an assistant who con-

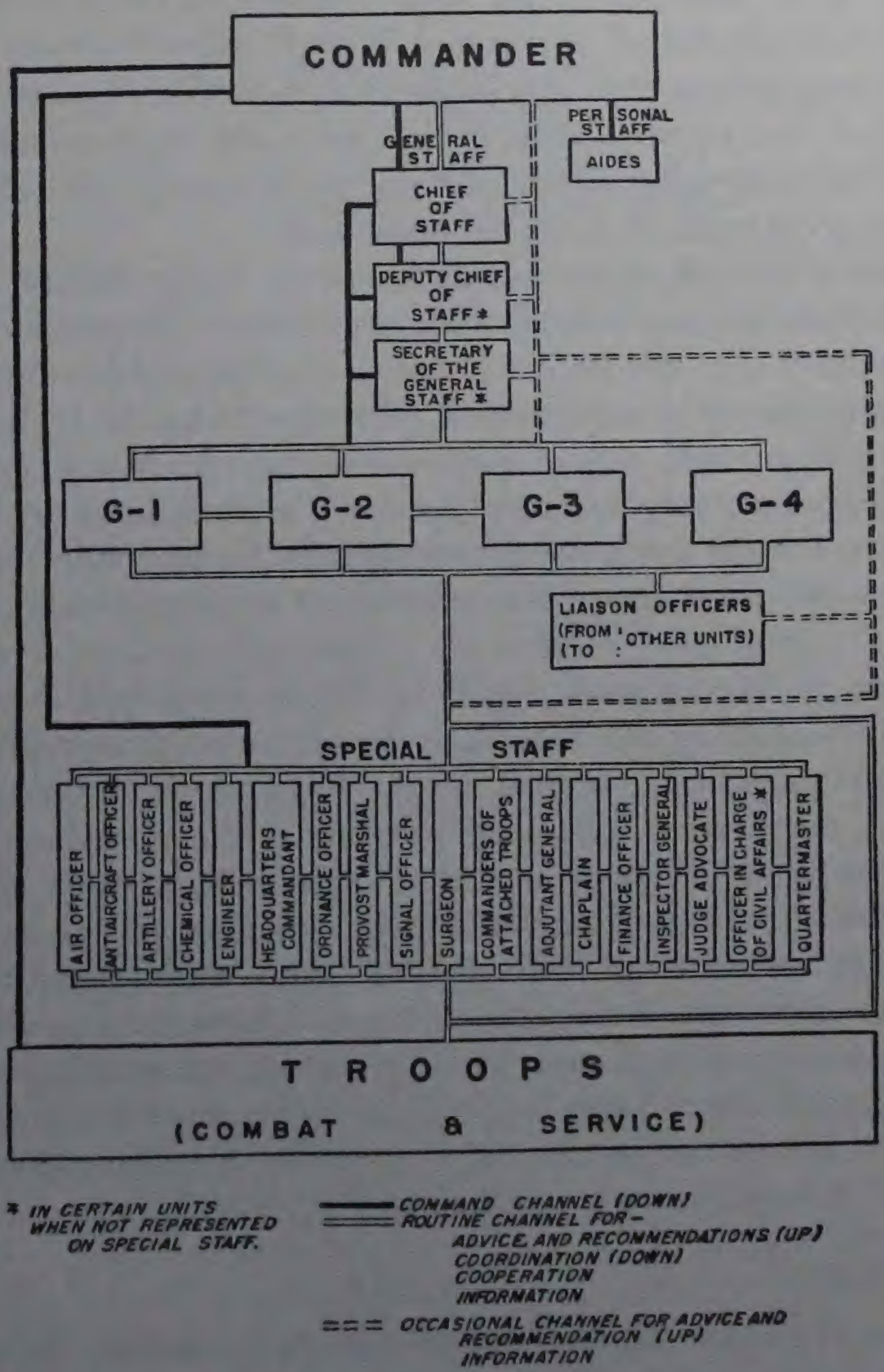

FIGURE 20. Army Staff Organization. G-1, G-2, G-3, and G-4 are general staff sections which deal with personnel, military intelligence, operations and training, and supply and evacuation, respectively. Source: War Department. *Staff Officers' Field Manual, FM 101-5.*

centrates on expense control. Also within this group would be a man to work on executive personnel, personnel policies and procedures, and, often, industrial relations. All such men work closely with and in the name of the executive they serve. They are extensions of his personality in the sense that they supplement his seeing and hearing, his imagination and cogitation, his specialized knowledge, his time for patient explanation and interpretation of plans, his coordinating influence, his frank appraisal, and his inspiration.

It is significant to note that such general staff assistants are "standard equipment" for all major executives in the federal government and in the army. A budget and fiscal officer, a personnel officer, and frequently an administrative planning officer are found in most federal agencies. This group is largely concerned with internal planning. There may also be assistants working on major policies and programs, although in many instances this is done by the bureau directors and other executives involved in directing the particular operation. In the army, each major commanding officer will have staff assistants working on personnel, military intelligence, operations and training, and supply. The emphasis on intelligence (information regarding the enemy and his capabilities) and supply (the provision and movement of all types of materiel, and related services) reflects the particular nature of military operations.

Although many of the foregoing illustrations of the use of staff apply particularly to the top executive of an enterprise, the same idea often is useful for other executives. A production manager, for example, may well have an assistant working on plant engineering and another working on production methods. In the same way, a sales manager may have staff assistants for sales methods, personnel, training, or, perhaps, market research. Any major executive may find the use of staff a practical way of avoiding adding an additional strata of supervision, while at the same time providing good direction and supervision of operating people.

Pros and cons on the use of staff

A study of these various examples suggests that the use of staff is desirable when:

1. The duties of an executive exceed his capacity to fulfill them well, either because he lacks the necessary time and energy, or because they require specialized knowledge that he does not possess; and

2. It is not feasible to relieve this load by delegation to operating personnel because (a) uniformity or coordination of action in several operating units is particularly important, (b) economy or effectiveness can be increased by assigning the work to a specialist, or (c) operating subordinates lack the capacity (time or ability) to do more of their own planning or to work effectively with less supervision.

Also, it should be borne in mind that the use of staff has its own drawbacks. First, it often increases administrative expense. In this connection it should be remembered that the operating executive and personnel naturally have a keen interest in the planning and the supervision of the activities in which they are engaged, and they know a great deal about the things to be done. Thus, there are inherent advantages in delegating planning along with doing. The establishment of a separate staff assistant for planning adds to the executive payroll and necessitates the transfer of information from the operating people to the staff assistant. When setting up a staff position, one should always question whether this additional expense will be more than repaid.

Second, the establishment of staff adds to the complexity of organizational relationships. Not only are the number of relationships increased, but the particular position of the staff man is often hard to define, and there is opportunity for misunderstanding. In addition, many people have a psychological resentment to receiving instructions and being checked up on, particularly by an individual whom they do not regard as their superior. This makes the effective functioning of the staff assistant an even more delicate matter. Therefore, valuable as staff may be, it should be used only when simple delegation does not fit the situation.

Requisites for Successful Staff Work

The use of staff is a relatively complex arrangement in administrative organization and special care is required if it is to be fully effective. In addition to being sure that the concept itself is understood and that the proper people are selected for staff positions, there are a number of points that deserve special consideration. Among these requisites for successful staff work are the following:

1. Provide the staff man ready access to necessary information through:
   a. Intimate and frequent contact with "the boss."
   b. Easy communication with operating executives and other staff men.

2. Consult the staff man before taking any action in the area of his responsibility.
3. Expect staff man to take initiative in promoting needed action.
4. Insist that the staff man rely primarily on "selling" his ideas, rather than resorting to commands.

Provide access to necessary information

If the staff man is to serve as an extension of the boss's personality, as has been suggested, it is vital that he be intimately acquainted with that personality. Unless he is in frequent contact with the boss, he will have difficulty knowing what kinds of information the boss needs and he certainly will be in a weak position to explain his senior's views on a given subject to other people in the enterprise. In fact, if he is out of touch with the top executive, there is danger that his recommendations and representations may do more harm than good. Operating executives would be better off to receive no advice at all than to receive incorrect counsel from one who is presumed to be in a position to speak for the principal executive. To avoid such a situation, a staff man should have ready access to the ideas of the chief, and should be fully acquainted with his opinions, prejudices, and wishes.

This need for close contact with the boss places an obligation on him to be available for discussion with his staff assistants and to share freely with them his information, his hopes, and his plans. Direct personal contact, conferences, and circulation of written material, letters, and reports are probably all necessary for this purpose.

The need for this kind of contact necessarily limits the number of staff assistants who can effectively serve a single executive. Of course, assistants who specialize in some one area do not require as frequent contact as a general or over-all assistant, and to some extent contact with other staff assistants or what the army calls a "chief of staff" can reduce the need for direct personal contact. Nevertheless, experience clearly demonstrates that the effectiveness of a staff man diminishes as his contact with his principal becomes less frequent and more remote.

With respect to operating information, it must, of course, be made clear to operating executives that the staff man is entitled to any information relating to his assignment and may, within reason, request reports on local situations. Probably more important are the informal channels of communication. The casual dropping in another man's office, the brief telephone call to pass along news of current developments, comments made in the relaxed atmosphere of the lunch table or

unexpected meeting in the hall, and the frank and unhurried discussions of men when they are travelling together away from the office, all these are important in keeping the staff man "in the know." Such flow of information depends more upon the social relations than upon organizational design. Still, by recognizing their importance an executive can encourage and perhaps help provide occasions for such informal contacts. Effective staff assistance in both planning and control requires that the staff man really be in a position to serve as the eyes and ears of his principal.

Consult staff before taking action

The effectiveness of a staff man can be either enhanced or undermined by the consistency with which his superior seeks his advice. For example, if the branch manager secures the approval of the sales vice-president for the appointment of a new sales supervisor while they are taking a five-minute rest at the end of the thirteenth hole in a game of golf, and the personnel assistant to the vice-president learns of the appointment two weeks later, the precedent is set for further direct action. It is too late for the staff assistant to point out that the new appointee lacks certain important types of experience and that another man now in the headquarters office is well prepared for such an assignment. The next time the branch manager wants to make an important personnel shift he will try to arrange another golf game, and he will soon come to regard the personnel assistant's investigation of branch personnel as unnecessary meddling.

Quite a different situation would have been created if the vice-president had said at the thirteenth hole, "Sounds like a good idea. Let's talk it over tomorrow morning with Bob who follows such things for me." Not only might the particular appointment have been different, but the branch manager would have learned that the personnel assistant played an important role in the promotion of key personnel. The next time the branch manager wanted to make a personnel shift he would probably discuss the matter first with the personnel assistant; then the vice-president could quickly get the advice of both men and act with dispatch.

This practice of consulting a staff man before taking action in the area of his responsibility is not recommended primarily as a means of increasing his status; more important, it assures that the principal executive will receive the benefit of the counsel of the staff man, which is the chief reason for the existence of his position. It is also

important if the staff man is to relieve the executive of personal attention to a lot of details of operation. On this point, General Carter sent an interesting note of warning to Secretary of War Root when the General Staff was being introduced into army administration about fifty years ago:

> Sir: It has occurred to me in watching the operation of the general staff law that much of its success will depend upon the manner in which the Secretary of War himself conducts the business of the department and of the Army. If the Secretary habitually requires Bureau officers to consult the Chief of Staff on all matters subject to the supervision of the latter official and permits them to come to the Secretary of War only after consultation with the Chief of Staff and with his concurrence, the system will soon be placed on a firm and lasting foundation . . . [on the other hand, if] a Chief of Bureau finds that he can expedite matters by taking cases directly to the Secretary, the temptation is very great to do all business that way.[1]

The importance of consulting staff before taking action has long been recognized in the Catholic Church. For centuries it has been common practice to *require* an official to seek the counsel of his subordinates (sometimes including staff men independently appointed) even though he has an unquestionable right of command after such advice is received.[2]

Staff initiative

There are two views regarding the initiative the staff man should take. One holds that the staff should merely be "on call" for assistance and that the request for aid should be initiated by the principal executive or the operating division.

The second concept in no way bars request for aid from operating people, but does presume that the staff itself will initiate considerable action. Under this view the staff is expected to "do the boss's worrying about the assigned field of activity"; he is expected to know if anything is wrong in his area and to feel responsible for promoting appropriate corrective action. While under special circumstances the first concept may be desirable, as a general rule the staff man should avoid acting like a doctor or a lawyer who hangs up his shingle and then hopes clients will seek his advice before they become incurably ill or involved.

This sense of responsibility, this acute dissatisfaction that a staff

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[1] O. L. Nelson, Jr., *National Security and the General Staff*, Infantry Journal Press, 1946, page 74.

[2] See J. D. Mooney and A. C. Reiley, *The Principles of Organization*, Harper & Brothers, 1939, Chapter 14.

man should feel when all is not well in his field, does not mean that the staff man should necessarily attempt to secure perfect conditions within a short period of time. As an integral part of the boss's office he must have a sense of relative importance, of strategic timing, of long-run versus short-run benefits, and similar considerations. If such matters suggest delay or cautious action, this is a question of deliberate decision rather than lack of initiative. The staff man should be ever watchful of ways to press forward and usually should keep the principal executive fully informed of the reasons for postponing action and the possible consequences that may arise from doing so.

Voluntary acceptance of staff recommendation

The staff man makes recommendations both to his superior and to operating executives working under the superior. To be most effective, these recommendations must be in a form that leads to action. This means, among other things, that the staff man should not swamp the executive with a large volume of data before it has been analyzed and related to solutions of problems facing the executive. Nor is it desirable to present proposals that are theoretically desirable but clearly impractical in the particular situation.

Instead, the recommendations to the chief executive should be prepared from his point of view; that is, expressed in language that he and operating assistants will readily understand and integrated with the total operating situation at the time they are made. As staff becomes more highly specialized it becomes increasingly difficult to maintain this point of view, especially if frequent and close contacts with the chief executive are not provided.

Recommendations made to operating personnel subordinate to the principal executive likewise have to be couched in terms of the practical operating situation. In most cases, the proposals should be "sold" to the operating executive; that is, they should win his voluntary acceptance. These proposals do not carry the weight of command, except when the staff man is speaking explicitly for the principal executive or in those unusual situations where functional authority is desirable. Since an appeal to authority should be used only as a last resort, the staff man should rely primarily upon winning voluntary acceptance of his ideas.

Even when a command is issued by the principal executive, ready acceptance by the man who has to put the instructions into effect will

contribute much to their success. Consequently, the staff man should be primarily concerned with achieving results, encouraging the operating executives to take credit for new ideas, letting facts speak for themselves, and holding himself always in the background as one who is merely assisting other individuals to do a good job.

To win the full cooperation of operating people and at the same time to initiate changes in operating practice is not always easy. All too often the operating man wants to leave well enough alone. One device that may be helpful in this situation is to require the staff man to make a semiannual or annual report to the principal executive covering the present status and need of changes in the area of the staff man's responsibility. The staff man can then explain to operating executives that he cannot honestly and safely fail to report such conditions. This then removes from the staff man the onus of bringing the matter to the boss's attention. In addition, it provides an occasion for discussing changes that, if made, would permit turning in a satisfactory report.

From the preceding discussion it will be evident that not all people are qualified to undertake staff work. In this regard Leonard D. White has said:

> The qualities of a successful staff officer are negotiating ability rather than highly developed capacity to command; the possession of a broad range of practical knowledge rather than specialized expertness in one field; patience and persistence rather than a tendency toward quick and fixed decisions; a willingness to remain in the background, rather than a desire for personal prominence; loyalty towards the policies and views of superiors, rather than insistence on one's conclusions or recommendations. Such men can be found; and in the conduct of administration they are invaluable.[3]

Use and Limitations of Functional Authority

Of all the concepts in the field of administrative organization, perhaps none is subject to as much misunderstanding and abuse as is functional authority. Since one of the simplest ways to regard this troublesome concept is as an extension of the staff idea, it will be considered in this chapter. The discussion will be centered around:

1. The meaning of functional authority
2. Limitations and dangers in its use
3. Conditions favoring its use

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[3] *Introduction to the Study of Public Administration*, 3rd ed., page 59. Copyright 1948 by The Macmillan Company and used with their permission.

Meaning of functional authority

Definition. We have noted that a staff man often investigates an operating problem and prepares a recommended course of action. If the recommendation is acceptable, his boss then issues it as an order to subordinate operating executives and operating personnel. Often the staff man prepares the written statement regarding the new plan (order) and is expected to explain and interpret the meaning of the order to operating personnel.

An individual who has functional authority follows the same steps as those just described, except that he issues the order in his own name instead of submitting it as a recommendation and having it going out over the name of the principal executive. Normally, an individual is granted such functional authority only over a limited type of activities. Functional authority, then, is permission to prepare and issue directions with respect to a specified group of activities, or aspects of certain activities; except for the source of issuance, such orders are to be treated as though they came from the principal executive himself.

Referring back to the discussion of delegation in the preceding chapter, we noted that often an executive delegates wide authority and responsibility for "doing" but reserves more or less of the "planning." When functional authority is used, no change is made in the "doing" delegation. Certain limited parts of the "planning," however, are turned over to a special assistant. Within the limits of his functional authority, this assistant decides the what, the when, and the how for those who actually perform the activity.

The reason for such an arrangement will be obvious to those who have had experience with the actual use of staff men. Often, the principal executive comes to place considerable reliance upon the recommendations of his staff, particularly on technical matters (for example, engineering, legal, medical, or accounting subjects). Everyone concerned, the staff man, the principal executive and the operators, all recognize that his approval of the order is a perfunctory matter; consequently, administrative procedure is simplified by having the order go direct from the staff man to operating personnel.

Effect same as decisions by principal executive. Although the source of such a functional order may be different, it has the effect of any direction coming down the channels of command. The line supervisor is responsible for seeing that it is fulfilled, and his authority with respect to supervision and the exercise of sanctions are unchanged.

Just as with any other direction, if he feels that execution of the order is unwise or impractical, he may go back to his senior executive and ask for a modification; although here it would be simpler to go first to the man who issued the instructions and try to get an adjustment before appealing "up the line." Until the direction is rescinded or modified, he is expected to carry it out.

It might be well to point out that functional authority is concerned only with the issuance of technical directions by one executive to people who are under someone else's line supervision; for example, when the chief accountant issues instructions to the warehouse foremen or the district sales manager. We do not say that a line executive has functional authority over his direct subordinates, because the concept of line supervision includes authority to issue instructions.

Military administration employs essentially the same idea as functional authority, although in this instance a staff man issues the direction "in the name of the commanding officer." For example, in defining the role of a control office, an army manual states:

> The position of a control officer in regard to operating units of the organization is exactly the same as that of any other staff division. A control office is authorized to direct operating units, in the name of a commanding general, on matters which are the functional responsibility of the control office. . . .
>
> Despite existing ability to exercise directive authority in the name of the commanding general, this power should be used as infrequently as possible. Action should be obtained through informal agreement and through the wisdom of recommendation, rather than through the exercise of staff authority.[4]

By insisting that the directions be issued in the name of the commanding officer the army maintains at least the fiction that all directions come down through a single channel of command, and at the same time it obtains almost as much flexibility as is secured through the use of functional authority.

Transfer of planning authority. In the discussion thus far considerable centralization of authority has been assumed. The only issue has been whether the central executive would himself issue all directions, or whether he would permit certain of his assistants to issue directions covering specified subjects in his behalf.

When, however, an enterprise or department has been operating with considerable decentralization of authority the granting of functional authority is likely to meet with more resistance. For instance, when operating executives, who formerly have been free to discharge employees as they saw fit, find that functional authority over such

[4] Army Service Forces, Manual M703-1, Fundamentals of Control, page 6.

matters has now been granted to the personnel director, or when these operating executives find that changes in office procedure are being determined by a methods division, there are likely to be complaints regarding the loss of prerogatives. This is, indeed, just what has happened, for in effect the principal executive first centralized authority over such matters (thereby reducing the prerogatives of the operating executive) and then delegated functional authority to his specialized assistant.

An alternative arrangement might have been to give the personnel officer or the methods department *concurrent* authority instead of functional authority, in which event the operating executives would have had to secure the concurrence or agreement of the specialized unit before taking action in the particular field, but they would not have been under obligation to carry out the instructions of the specialized unit just as though those instructions came from the principal executive himself.

Channel of communication. One further point may be helpful with respect to the general concept of functional authority and its operation. To whom should the directions from an individual exercising functional authority be directed—the executives immediately under the principal who granted the functional authority, operating supervisors, or individual operators?

The practical answer to this question appears to be that the instructions from the functional unit should flow directly to the level in each chain of command at which decisions on such matters are made. Thus, if authority is decentralized, several top layers of supervision may be by-passed in order to speed up matters. The man at the decision level should then keep his senior officers informed just as he would on matters that he decided for himself. The very existence of the decentralized authority may be taken as evidence that the top executives do not consider it wise to attempt to decide such matters personally, and only wish to become involved when operating results are in danger.

On the other hand, we may find a man in a functional unit issuing instructions to an executive who is clearly senior in status; for example, a man in charge of budgetary procedure may issue instructions to a vice-president. Where the granting of functional authority is well conceived in the first place and the man exercising it is technically competent, this sort of relationship is entirely workable—at least among civilians—and the military make it palatable by acting in the name of the commanding officer. It must borne in mind here, as in all

of the discussion of functional authority, that the device is fundamentally a shortcut designed to eliminate some organization formalities and red tape.

Limitations on the use of functional authority

Understanding the nature of functional authority is one thing; knowing when to use it is quite another. In making practical applications of functional authority it is necessary to be aware of its advantages and limitations. Since the illustrations given thus far have suggested the desirability of functional authority, it may be well to look first at the principal dangers and disadvantages of the use of functional authority.

There is danger that the directions coming from several different functional executives will *overburden operating people*, and occasionally they may even conflict with each other. Consider, for example, the district sales supervisor who receives instructions for rather elaborate accounting records from the chief accountant, training directions along with requests for frequent individual ratings from the personnel director, elaborate and glowing instructions regarding the next sales campaign from the sales promotion director, and weighty instructions from the legal counsel, all in addition to what presumably are the major orders received from his line supervisor, the sales manager. Each of these executives in his zeal to fulfill his particular responsibility places heavy burden on the operating man.

There is also a possibility that the directions from the sales promotion manager and the chief counsel may be somewhat inconsistent when applied to a particular operating situation, or that the sales supervisor may receive an urgent request for revised budget data on the afternoon he is expected to have a training conference. Each of the executives with functional authority is empowered to go directly to operating supervisors, and only occasionally is provision made for some central clearance (like the chief of staff in army organization) to make sure that all the directions, when combined together, make a consistent, do-able assignment.

Substantial use of functional authority tends to *weaken the influence of the line supervisor*. As more and more orders are received from the functional specialist, the operating man naturally tends to turn to them for interpretation, advice, and assistance in carrying out their particular instructions. This admittedly dilutes the authority of the line supervisor and can depreciate his status in the eyes of his sub-

ordinates. The reduction of the role of the foreman to little more than a stimulator to action in some of the highly "functionalized" shops has become a graphic example of this tendency. And yet the line supervisor is expected to see that the directions are carried out; he is the one who is supposed to get results.

There is danger that the use of functional authority will lead to *autocratic and inflexible administration*. Since the man with functional authority can speak with authority of the principal executive, there is an ever-present temptation to rely upon official decree rather than voluntary agreement. This autocratic approach, as will be noted later in discussion of direction and control, loses the benefits of joint participation and, under some circumstances, results in indifferent work. Then, as operating conditions change and there really is need to modify the direction, the centralized executive may have lost intimate touch with the actual situation. Often a conference or two, perhaps with the principal executive, who is likely to be busy, will be necessary to achieve the merging of several compartmentalized viewpoints and the issuance of new directions. Where decision-making is kept within the powers of the line supervisors, and particularly when such authority is decentralized, this source of inflexibility can be avoided.

Conditions favoring the use of functional authority

Examination of the preceding limitations of the use of functional authority will show that much of the difficulty arises when functional authority is granted to several different executives, and when it covers a substantial part of the total job of an operating person. Like many other refinements or short cuts, when used occasionally and in moderation they work well, but when adopted as a primary basis of administration they cause confusion. Functional authority works best under the following conditions:

1. When only a minor aspect of a total operating job is covered. This may be either a relatively unimportant phase, for instance, medical examination of plant workers, or accounting records in a district sales office. Or, it may be the detailed procedures to be followed in the execution of a plan already agreed upon by the line supervisor, as, for example, the particular steps to be followed in merit rating or in placing advertisements in local newspapers. It is important that such activities be performed properly, and when they

constitute a relatively minor and somewhat alien part of the total activity involved it may be better to let some specialist stipulate how they should be done.

2. When technical or specialized knowledge of a type not possessed by operating executives is needed. For example, the typical operating executive in a manufacturing or distributing enterprise probably does not understand the intricacies of real estate, tax, or construction problems, since he encounters these fairly technical problems infrequently. Also, these are the types of problems on which the principal executive would probably accept the advice of his assistant, so it may be simpler to authorize the specialized executives to deal directly.

3. When uniformity, or at least consistency, of action in several operating units is essential. The need for a uniform basis for evaluating inventories located in several branches, or the desirability of consistent extension of credit by two or more product divisions of a company illustrates this point.

If at least two of these conditions are present, the use of functional authority may be quite helpful. It provides an expeditious way of getting fairly technical direction to the operating people. On the other hand, its overuse can lead to considerable confusion; and if there is any doubt regarding the desirability of the arrangement, it is probably wise to fall back onto the straight staff relationship. If the staff man has superior technical knowledge and also can get the backing of the principal executive when this is needed, he can accomplish almost the same results as when he has functional authority. When in doubt, be cautious about granting functional authority.

Special Arrangements for Staff Work

Before leaving the general subject of staff, it will be helpful to at least note some of the special ways staff may be related to other parts of the organization. Important in this connection are (1) the assignment of both staff and operating duties to a single individual or division and (2) the duplication of staff units at several levels in a large enterprise.

Combination of staff and operating work

Particularly in small enterprises, it may be necessary to combine operating and staff duties. For example, a treasurer may not only be

responsible for directing the financial activities, but may also serve as a general assistant to the president. In such a situation it is commonly said that a man has two hats, one to wear as an operating executive and the second as a staff assistant. Unfortunately, this is only a figure of speech and all too often the employees contacted by such an executive are not sure whether he speaks in his capacity as treasurer or as an assistant to the president; in fact, he may not draw the distinction sharply himself.

If the concepts are clearly established, however, this confusion can be minimized, and there are numerous examples where a single man has performed such a dual role effectively. In small units, where the expense of a full-time staff man may be prohibitive, this may be the only arrangement that is practical.

Service divisions may also be assigned a dual role. Again we are talking about the consolidation of two separate organizational devices, an operating service and the extension of the abilities of an executive. Leonard D. White draws this distinction sharply:

> The staff function and the functions of auxiliary services are different and ought not to be confused. The auxiliary services are operating agencies, staff is a thinking, planning and advisory agency. The auxiliary agencies are concerned with the maintenance of an existing organization, and are not concerned with major substantive policies; the staff is concerned with the revision of organization as new needs may dictate, and with the reformulation of major policy.[5]

In actual practice it may not always be practical to maintain such a sharp distinction. The sales promotion department, for example, may perform a variety of services for salesmen, such as the preparation of samples and the mailing of letters to prospects designated by the salesmen, and at the same time it may be an advisor to top executives and field supervisors as to sales methods. Likewise, the engineering department may both perform engineering services and also be the chief source of technical advice throughout the company.

A similar arrangement is recognized in army organization where a single individual may be both in command of an activity and also the advisor to the commanding officer on, say, ordnance or artillery. Again, where such a grouping exists, it is usually dictated by economy; it is less expensive to use the specialized ability of the executives of such divisions in both staff and operating capacities.

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[5] *An Introduction to the Study of Public Administration*, 3rd ed., page 32. Copyright 1948 by The Macmillan Company and used with their permission.

An even more complex arrangement may be found for a few divisions that provide operating service and staff advice and also exercise functional authority. It is not uncommon, for instance, for the personnel department to operate cafeterias, recreation facilities, or employment offices clearly as service activities; to advise executives at all levels of the executive pyramid with respect to, say, training and employee motivation, and to check up for the chief executive to be sure that these activities are properly handled; and, in addition, to exercise functional authority with respect to employee records, pensions, and similar matters. Similarly, the accounting department often performs a large volume of operating work, advises executives regarding the interpretation and use of accounting figures, and has functional authority over accounting methods and procedures throughout the company.

Naturally, such complex relationships are potential sources of confusion. However, if the basic concepts are understood and the duties of the particular department clearly defined, such a combination of duties may be entirely practical.

Duplicate staff

In large enterprises it may be desirable to establish staff units not only under the chief executive, but also under the major departmental executives, and perhaps at a third level. Thus, there may be a legal assistant to the general manager, to the sales manager, and occasionally to the district manager. Such duplication of staff at two or more levels is found for cost control and budgeting, personnel, and other functions. The desirability of this arrangement depends upon (1) the volume of such work under each of the operating executives, (2) the degree of decentralization of authority, and (3) the technical character of the staff advice, and, hence, the ease or difficulty of communicating it down the line of supervision.

Effective staff work requires that the information, the advice, and the supervisory assistance be readily available to the operating executive who is actually making the decision in the matter. Hence, if staff assistance is to be provided on specific operating issues, the large company has no alternative but to duplicate staff at the lower operating centers of administration.

If repetition of staff is needed, it is also usually desirable to permit the staff man attached to the senior executive to concur in the appointment and assist in the training of staff men performing a similar func-

tion in subsidiary operating units. This practice, along with the parallel form of organization, which will be discussed in more detail under organization structure, promotes consistency and efficiency of administration, even when the staff advisors are nominally independent of one another and attached to separate operating executives.

Summary

The job of an administrator has been divided, in this book, into planning, organizing, assembling resources, directing, and controlling. These tasks often are beyond the capacity of any single executive. The simplest, and therefore preferable, way to cope with this heavy load is to delegate part of the administrative tasks to subordinates who are also responsible for performance. Another possibility is the use of staff.

Staff assistants may help an executive in a variety of ways. Usually, their chief job is to assist with the planning. They may be asked to gather facts, analyze troubles, make recommendations, draft instructions, and secure suggestions and views of various people affected by a proposed order. Often, they assist the executive in directing by explaining and interpreting orders and by counselling with subordinates. Sometimes staff men are asked to keep track of what actually happens and to initiate corrective action when necessary; in this way they help in controlling. In large concerns, the use of special staff assistance on problems of organization and executive personnel is not uncommon.

In all these activities, the staff man is doing what the executive himself would do if he had the time and ability. The staff man always acts in behalf of the executive, and in this sense tries to function as an extension of the executive's personality.

Staff is likely to be useful when it is not practical for an overloaded executive to delegate down the line, because (1) coordinated action of several operating units is particularly important, (2) expertness, adequate attention, and objectivity of a staff man will result in greater effectiveness, or (3) operating subordinates are already loaded to capacity. On the other hand, staff often increases administrative expense and it inherently creates complex relationships. Consequently, it should be used with caution.

Even greater wariness is needed when functional authority is considered. Issuance of directions by one person for subordinates of

someone else to carry out is likely to lead to confusion, unless the directions deal with a relatively minor and specialized phase of operations.

The needs of the particular executive should determine what, if any, staff help is desirable. Sometimes one or two assistants who cover a wide range of subjects are needed; occasionally a group of more specialized aides are advisable. In many situations no full-time staff is warranted, but certain operating or service executives devote part of their time to staff work. Whatever the scope and the time spent, staff work will be fully effective only if the staff man has ready access to information, is consulted regularly by the principal executive, takes initiative, and relies primarily on persuasion to get his idea accepted.

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Chapter 12

DECENTRALIZATION

Few aspects of organization are any more vital to effective administration than is decentralization. Already the topic of frequent discussion, this subject will probably receive increasing attention as we improve our administrative skills and our knowledge of human behavior.

Meaning of decentralization

Unfortunately, the word centralization (or decentralization) has a number of different meanings, and to avoid confusion it is important to recognize the particular sense in which the word is being used. In connection with administration, centralization (decentralization) may refer to (1) departmentalizing activities, (2) location of actual performance, or (3) the level in the administrative hierarchy at which operating decisions are made.

The centralization of an activity—such as purchasing, maintenance, public relations, training, printing, or sales promotion—into a single division has already been discussed in the chapters on departmentation and service divisions and needs no further comment at this point.

Physical decentralization. Centralized versus decentralized location of activities is too specialized a subject to be explored here. The subject includes such broad issues as the concentration or the dispersion of manufacturing plants, the use of multiple retail outlets or warehousing facilities to service customers, and the separation of headquarters offices from operating units. Even after specific locations are selected, there still remains the question of just what activity will be performed at each place.

In accounting, for example, a retail outlet or a manufacturing plant may keep only a minimum number of records and forward all sales slips, bills, and other entries to a central accounting office; or it may maintain a complete set of books so that a balance sheet and profit-and-loss statement for the individual unit can be prepared locally.

Similarly, sales activities at a branch office may be confined to routine contacts with customers; or, all merchandising service, and selling activities relating to customers in that district may be included. Even at a single site the location issue appears in the form of layout problems, with questions as to the desirability of such things as centralized storerooms and centralized files.

These location questions can usually be settled only by considering a variety of factors such as service to customers; cost of labor and materials; availability of power, repair service, and technical advisors; ease or difficulty of communication; economies of large scale operation; and additional capital investment required.

Although discussion of decentralized location is beyond the scope of this chapter, the choice of location does have some bearing on the decentralization of authority. The physical decentralization of activities increases the difficulty of communication and often creates special problems of local adaptation and coordination. Consequently, decentralization of authority is more likely to be found in widely dispersed operations, but, as will be shown later, this is not necessarily the case. An actual plan to meet a particular situation may well involve questions of location, departmentation, and delegation of authority. For present purposes, however, it will be most useful to concentrate on the pros and cons of decentralization of authority.

Authority to decide. In every enterprise of two or more people there must be delegation of authority and the accompanying obligation to act. The only purpose of adding new employees is to turn over to them certain duties. Hence, there is no problem of this type of decentralization; it is inevitable in every joint enterprise.

The real issue is the decentralization of authority to plan, that is, who is to decide what is to be done. Is a salesman, for example, free to decide what customers will be solicited, the type of sales promotion to be used, prices to be charged, credit terms to be offered, and the time and nature of his contacts with customers (as might be true for a single salesman in a foreign country); or, is he given a prepared sales talk, an itinerary, and a list of conditions under which orders will be accepted (as happens for some book salesmen)? Viewing the problem from a higher echelon, are the executives expected to make detailed plans that are then carried out by their subordinates, or are executives primarily concerned with helping subordinates do their respective jobs well?

The issues involved in this question of decentralization of authority

to plan can be seen more clearly by examining four alternative arrangements:

1. Centralized administration
2. Limited decentralization
3. Delegated authority
4. Bottom-up administration

Although these types of decentralization merge into each other and combinations of them are possible, familiarity with the nature and advantages of each type will be useful to the administrator faced with the practical problem of how much authority to delegate. With these situations in mind, the list of factors given at the end of the chapter will take on practical significance.

Characteristic Stages of Decentralization

Centralized administration

Decentralization is not always desirable, and it is important to recognize those situations in which *detailed and comprehensive planning by the key executive* will produce the most effective and efficient operation.

Such centralized administration is found most often in very small enterprises, those where the chief executive has only a few unskilled people to assist him. He is thoroughly familiar with all phases of the operation, and the work typically is limited in volume and variety so that he can keep in close touch with all that goes on. In these circumstances he can give detailed instructions to his employees and adjust the plans as current circumstances warrant. To hire more-competent employees to whom he might delegate some of the planning would unnecessarily increase his payroll expense—unless there is reason to believe that the volume of work might be expanded beyond the capacity of the one man to plan for it, or that the new man could think of ways to substantially cut expense. Small divisions or sections in larger companies are somewhat similar to the small enterprise just described; the executive in charge can do most of the planning that is required and payroll expense may be kept at a minimum by providing him with subordinates who are "doers" only.

Centralized administration is not confined to small units. There is a successful chain of lunchrooms in New York City in which virtually all the planning is done by the top executive. Neither the managers of the individual lunchrooms nor their subordinates can

exercise much judgment or intiative. The waitresses are instructed how to clear off the dishes and when to wipe the counter; the spoon has a stipulated place on the coffee cup and there is a given way to pick up a hot dog. All these methods have been carefully studied by the top executives, so that the customer receives clean, prompt, and efficient service. The limited menu is planned in a central office; prices are fixed; even the temperature at which the soup is to be maintained at the steam table is specified. Selection and layout of equipment, store display, and selection of personnel are all decided in the central office. The result is an attractive eating place with uniformly good quality of food. Adjustment to the individual wishes of customers is, of course, at a minimum; rules prevent even an extra cup of hot water with a cup of tea. Still, there are enough people who want the type of food that is offered in the manner it is served to make the total operation quite successful.

The chain of lunchrooms just described is not an isolated case of centralized administration. Some of the automobile and equipment finance companies are almost as highly centralized, and, if we consider individual departments such as sales, accounting, credit, or production, the examples of the use of central administration are more numerous.

Among the important advantages of centralized administration are (1) use of less-skilled personnel in subordinate positions, with a resulting lower payroll expense; (2) widespread application of unusual knowledge or judgment that may be possessed by top executives; (3) regulation of the quality, service, risk, et cetera of the enterprise. The disadvantages of this type of arrangement will become evident as the advantages of more decentralized forms are discussed.

Limited decentralization

Under limited decentralization the policies, programs, and major procedures are decided in the top echelons of the company; the *application of these plans to specific situations and the detailed day-to-day planning* are delegated down the line to the first or second level of supervision.

The general manager of a manufacturing company with approximately a hundred employees, for example, said he had decentralized authority to the production manager, but closer examination revealed that the delegation had very definite limitations. Inventory policy, quality and inspection policy, purchase of large machines, appoint-

ment of foremen, changes in basic wage rates, and similar matters still required final approval by the general manager; in many instances he actively participated in forming such plans.

On the other hand, the production manager scheduled production; requisitioned materials, operating supplies, and repair parts costing less than a hundred dollars; in conjunction with the foreman concerned hired employees, granted time off, and handled other routine personnel matters; assisted foremen in overcoming production delays; and otherwise was responsible for "getting the work out." The production manager clearly did not have unlimited authority over production operations; nor did he rely on the general manager for detailed planning or guidance every time operations failed to proceed exactly with prearranged schedule and methods. Instead, he used his own initiative and discretion within well-understood limits.

A somewhat similar limited decentralization is often found in the relations between headquarters and branch activities. The Ford Motor Company, to cite a specific case, for many years gave its assembly and sales branches only limited discretion in operations. Basic policies, production methods and sales procedures, budgetary limits on expenditures, major capital additions, and such matters were all decided in Detroit by top officials or their staff assistants. The branch manager, then, applied this basic plan to his particular assembly plant and sales district. Obviously, a great deal of detailed planning was necessary by the branch manager and his subordinates, but they operated within a clearly established pattern.

A similar arrangement is found in the Washington-field relationships of many of the departments and agencies in the Federal government. In the better-run agencies, the field personnel may participate in the formulation of procedures and policy, and there is a free flow of information between Washington and the field. The field office personnel usually decide how the general rules and regulations apply to an individual situation, but with a given set of facts there is typically a very narrow area in which they may use their own discretion.

The proponents of limited decentralization feel that they get most of the benefits of centralized administration, notably the widespread use of the good ideas of the top executives and centralized regulation of operations at least in those areas where it is believed important for purposes of consistency, efficiency, or control. On the other hand, limited decentralization does relieve the top executive of attention to a great deal of detail, and thereby frees his time for other matters.

Also, especially in large scale or far-flung enterprises, action on specific problems can be taken much quicker, and there is possibility of more adaptation to local situations than would be possible under centralized administration.

Delegated authority

Under the plan of delegated authority, operating decisions are pushed well down the line to superintendents, branch managers, and similar executives; often to foremen, sales supervisors, and other first-line supervisors; and sometimes to salesmen, bookkeepers, machinists, and other direct operators.

One of the large soap manufacturers, for example, has adopted a standard practice of delegating considerable authority to its plant foremen. These men have final discretion as to the selection, transfer, and promotions of employees. They watch closely the condition of equipment and decide when shutdowns for maintenance purposes are necessary. Changes in operating methods are made only with their approval, and they carry the primary responsibility for training the operators in these new methods. Along with authority over such matters goes the responsibility for seeing that output is maintained according to schedule and that expenses are kept low.

In a very real sense each foreman runs his own shop. He does not, however, act like the nineteenth century autocrat who was given almost complete independence of action and, aside from reporting to his immediate boss on results, considered any investigations and advice from outsiders as a transgression of his prerogative—yes, even a personal insult. Instead, this modern foreman has been taught to seek assistance from the personnel department on matters pertaining to his employees, from the maintenance department on questions of equipment repair, from the methods department in designing more efficient ways of handling materials, and so forth. He may well have worked in several of these staff divisions and, in any event, before he is assigned responsibility as a foreman he has been thoroughly indoctrinated with company policies and procedures. *The authority is his, but higher management is reasonably sure he will follow the established pattern* unless unusual operating conditions require special action.

Delegated authority may, of course, be used only in a particular department or for certain individuals. This was clear in the credit department of one company, where the authority of the individual credit

men was adjusted to their experience and ability. One man who had been with the company for a long while and had demonstrated good judgment could grant credit up to $50,000 to a customer, and was given a free hand in pressing for collection. The other men could extend credit up to $15,000 per customer, and had to secure the approval of the credit manager before going beyond this amount. They also were required to discuss the situation with the credit manager before sending other than the routine collection letters to a customer. The credit manager, on the other hand, had been given full authority to grant credit and make collections, the only restrictions being placed on him by the treasurer were the total amount of assets to be tied up in accounts receivable and the over-all expense for operation of the division and for bad debts. Here again, substantial authority was delegated to persons whose action would reflect previous training and company tradition.

Important among the advantages of delegated authority are (1) relief of senior executives from the time-consuming attention to detailed methods; (2) increased flexibility arising from the authority of junior people in the organization to make prompt decisions without awaiting approval of the action from one or more supervisory levels; (3) greater interest and enthusiasm of employees on lower levels who, because of their increased authority and responsibility have more personal pride in their work; and (4) development of junior executives for promotion to positions of greater responsibility.

These advantages of delegated authority become increasingly important as an enterprise grows in size, and they account for the conviction of many modern executives that authority should be decentralized as far as operating conditions will permit.

Bottom-up administration

Bottom-up management represents the ultimate in decentralization. Under this plan, *not only authority but also initiative is decentralized*. Each plant, each unit, and perhaps each individual is made to feel a proprietary responsibility for his activities; it is up to him to figure out how they may be best performed, and then do the job in that manner. Centralized staff assistance is used only insofar as the operating people believe it will help them; if they can get better results following their own ideas, no one complains.

This extreme form of decentralization is not uncommon in companies that have foreign sales offices or manufacturing plants. The

distance between headquarters and operating units makes communication slow and inaccurate, and the unfamiliarity of top executives with local operating conditions makes centralized planning of dubious value. Aside from general control over products handled, size of operation, and total investment, experience of most companies indicates the wisdom of selecting a capable manager for the foreign unit and then giving him free rein. The managers will be keenly interested in any ideas or experience of the domestic organization, but they use their own judgment in adapting the ideas or developing entirely new ones. In fact, the foreign units may well develop new ideas that are subsequently adopted by the domestic operations.

Some firms treat all of their operators in essentially the same manner. Instead of plans going from the top of the organization down, they originate at the bottom and the ideas tend to flow up. Under such a scheme it is, of course, impossible for the top executives to undertake detailed control. The principal duties of the chief executive become that of helping the operators do a better job, in contrast to a scheme in which the operators are expected to carry out the orders of the executive.

The concept of bottom-up management requires competent personnel. William B. Given, Jr., chairman of the board, American Brake Shoe Company, says, "Without careful selection and training, a high degree of decentralization not only would be dangerous, but in the end could bring ruin to the business." [1] Moreover, the concept is particularly adapted to companies that are composed of relatively small, self-contained, independent operating units, where the possible failure of one unit will not be a calamity for the entire company or have adverse reactions on the other operating units. For example, the concept has been employed with considerable success in American Brake Shoe Company and in Johnson & Johnson, both multi-product, multi-plant companies.

Where uniformity of action is essential, as in a public utility, the local unit cannot be granted such freedom. Use of consultative direction, described in Chapter 21, may be as close to bottom-up administration as is practical in such situations. Nevertheless, as a general attitude and approach to the question of decentralization, bottom-up management has very wide application.

The greatest advantage of bottom-up management is its effect on

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[1] *Bottom-up Management.* Harper & Brothers, 1949, page 88.

the members of the enterprise. It stimulates the employees to challenge, discover, create, decide, and initiate. Not only does this enhance the morale of the individual concerned, but it provides a dynamic force that can be made an important source of profitable operations. It provides excellent training for future executives. Also, operations are adapted to local conditions, inasmuch as both initiative and authority are thrust upon those who are most familiar with the actual operating situation. Administrative controls can be simplified, and some eliminated entirely. Mistakes will be made, to be sure, but "the cost of a few failures will be more than offset by the cost of elaborate precautions devised to prevent making any mistakes." [2] Bottom-up management, like delegated authority, relieves the top executive of attention to considerable detail, and also provides flexibility through prompt action.

Effect of supervisory review on decentralization

The preceding discussion of decentralization has placed emphasis on the organizational level at which decisions are made. A whole range of possibilities, from highly centralized planning to the situation in which both authority and initiative are pushed down to the lower levels, has been considered. In actual operations, decentralization is concerned not only with the level at which the original decision is made, but also with the way those decisions are reviewed by senior executives. Thus, if a sales manager insists on reviewing every quotation before it is sent to a customer and frequently revises the price suggested by the salesman, there soon will be very little decentralization with respect to this activity. In effect, the salesman merely makes a recommendation and the final decision in each specific case is made by the sales manager.

Another way is for the senior executive, say the sales manager, to permit his subordinates to make decisions on specific cases; he then reviews the action taken and, if he believes the current practice should be modified, issues policies, procedures, or other standing rules to be followed in the future. This type of supervision results in limited decentralization.

Still another possibility is for the senior executive to refrain from either making decisions on specific cases or setting up general procedures to be followed; instead, he provides additional facts to his subordinates, gives them advice and counsel on the desirability of one

[2] *Ibid.*, page 19.

course of action versus another, and otherwise trains them to make what seems to him to be wise decisions. This type of supervision seeks to improve the capacity of subordinates to make sound decisions and does not interfere with delegated authority.

And finally, the senior executive may adopt the attitude that on the average his subordinates will make wiser decisions if he does not attempt to impose his will upon them. He is prepared for the fact that some mistakes will be made and avoids an I-told-you-so attitude when a new method initiated by a subordinate does not work satisfactorily. He is prepared to give advice and counsel (and when necessary to remove incompetent subordinates) but is careful to see that initiative continues to come from the bottom up.

There are, of course, many other aspects of supervision, and these will be considered in a later chapter. It is sufficient to note here that the degree of decentralization has a major influence on the manner of supervision.

Factors to be Considered in Decentralization

The selection of a sound pattern of decentralization of authority is one of the most crucial aspects of administrative organization. In addition to the selection of a basic concept that is to characterize the entire organization, each executive, starting with the president and working down through the successive supervisory levels, must decide what authority will be delegated to each of his subordinates. Inasmuch as the degree of delegation often varies from one subject to another, there are a series of relationships to be considered. Fortunately, in a going concern many of these relationships become a traditional pattern of behavior, and do not require special considerations each time they are employed. Nevertheless, new situations do keep presenting themselves and old patterns of behavior should be subjected to periodic review. All of which means that the administrator is faced time and again with the question of how much decentralization of authority should be employed.

There are no simple formulas to provide answers to these questions of decentralization. Even if one is inclined to join in the modern emphasis on decentralization, there still remains the troublesome questions of what types of decisions should be made the exception and retained for top management, just how far down the line should the authority to make decisions be delegated, and, in a given situation,

should limited decentralization be employed instead of full delegation of authority? The answers to such questions appear to lie in a careful consideration of the following factors as they are found in particular operating situations.

1. *Who knows the facts that will determine the decision, or can get them most readily?*

Sometimes a single individual—salesman, machine operator, advertising manager, plant superintendent, purchasing agent—becomes acquainted in the normal course of his work with all the facts needed to make a given type of decision, and consequently becomes a natural point for decision making. Many decisions, however, require information from several different sources; for example, the purchase of a new machine requires data regarding production methods, plant layout, future volume, availability of capital, workers' attitude, and so forth. Channels of communication must be established to bring this information to a single point; it may be easier to pass general information down the line, or, in other situations, to pass specific information up the line. This raises considerations of the accuracy, time, and cost of such communication.

2. *What is the capacity of men at different organizational levels to make wise decisions?*

Clearly, if people in lower levels—salesmen, foremen, office supervisors, branch managers—lack the inherent ability and training needed to make a wise decision on the subject in question, there is a compelling reason to withhold authority from them. Such capacity, however, is usually a relative matter, and even the assumption that wisdom increases as one moves up the executive hierarchy does not provide a key as to how far up the decision must be moved in order to get a reasonably satisfactory decision. It is to be noted that a man's ability to deal with daily operating matters may be substantially greater than his ability to judge technical subjects; this suggests freer delegation on certain types of problems than on others.[3]

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[3] Capacity of individuals at different positions in an organization is not a static thing. With experience and training their judgment may be substantially improved. Moreover, there is always the possibility of increasing or decreasing the capacity of the incumbent of a given position by personnel transfers. When decentralizing authority, this future capacity, as well as present capacity, should be considered. Over a period of time, the capacity maintained at different levels may be dictated by relative salary expense.

3. *Is there need for speedy decisions adapted to varying local conditions?*

The repair of a breakdown on a railroad, or the buying of fruit at a wholesale auction obviously call for placing authority near the place of action. A similar, though perhaps less dramatic, pressure for prompt action is found in other situations, such as the negotiation of contracts, the employment of personnel to meet unexpected peak loads, or the adjustment of a complaint of an irate customer.

4. *Is coordination with other activities particularly important?*

Sometimes uniformity of action—for example, the same prices for all customers in a given area, use of a single account classification, or a fixed schedule for determining the length of vacation for all employees in a given plant—is of such importance that decisions relative to these matters must be made centrally. In other instances, such as determining the weekly production schedule or laying out a national advertising and sales promotion program, actions in several areas must be closely synchronized, and this requires at least some central planning.

5. *How significant is the decision?*

A decision that is going to increase or decrease profits only a dollar or two clearly should be left to a junior executive or employee. The expense of communication up and down the channel of command and of the time of a senior executive would be far greater than any possible savings resulting from the judgment of the senior executive. On the other hand, any decision that will have a major effect on total operations, be it either a single transaction or a basic policy, should be at least approved by a senior executive.

6. *How busy is the executive who contemplates making the delegation?*

The executive who is faced with heavy demands on his time naturally will be freer in making delegations to his subordinates. As will be noted in the discussion of span of supervision in Chapter 15, there are several other ways to relieve the pressure on an executive, notably reducing the scope of his responsibility, cutting the time he is expected to spend personally in outside contacts or similar activities, and providing him with staff assistance. In this process of adjusting the duties of each executive to a reasonable load for an individual, the degree of decentralization is of crucial importance.

7. *What is the significance in the particular situation of the initiative and improved morale that may be generated by decentralization?*

Companies that are faced with frequent changes in consumer demand, in technology, or in competitive situation have particular need for adaptability and initiative on the part of their employees. In other enterprises, such as many public utilities, the rate of change inevitably is slower and a large number of employees with originality and initiative may actually create discontent and lower morale. In somewhat the same way, particular units or field offices of a company may be expected to be creative or original in their activities, or they may serve the enterprise best by providing stable and dependable service. American tradition favors both the freedom of action and the dynamic individualism that are associated with a high degree of decentralization. But it is well to remember that there always have been limits on the proportion of the population that conform to this tradition.

The importance of any one of the preceding factors in a company where decentralization is being considered will vary from situation to situation. Sometimes the need for speedy local decisions will be a dominant consideration, and at other times the pressures on the time of the top executive; perhaps the importance of the decision being made combined with the need of close coordination will place severe limits on the amount of decentralization possible; enterprises with a capable sales or production force, operating in a dynamic, competitive situation may find decentralization essential; and in still other situations the balance of pulls up and down will be even more complex. By and large, however, decentralization problems in American enterprises reflect not so much the complexity of the problem as a failure on the part of administrators to recognize the alternatives available and to make a systematic analysis of the advantages and disadvantages of different arrangements.

There are two aspects of the planning process that can be of great aid in decentralization. First is the concept of hierarchy of plans, and particularly hierarchy of goals. It was noted that these plans move from very broad and general objectives to successively more narrow and specific goals and standards. To a considerable extent, though not entirely, this narrowing of scope corresponds to the delegations and redelegations in the executive pyramid, so that even where the junior executive is delegated considerable authority, he operates as a

part of a whole general structure and accepts as his objective only a limited range of activity.

Second, standing plans—particularly broad policies, but also detailed procedures for those activities that permeate the entire enterprise, such as accounting methods—provide a pattern of behavior within which delegated authority is exercised. The indoctrination that a man receives through work, experience and training functions in the same manner. These things contribute to a unity of action, even where considerable degree of decentralization is employed.

Summary

The organization level at which operating decisions (plans) should be made is a recurring problem for most administrators. There is question as to what subjects may be best handled by people in the lower levels of the executive pyramid and what subjects should be decided centrally. Sometimes distinction is made by type of plan as well as by subject. Thus, objectives, broad policies, and standing procedure may be decided by the general manager, whereas other planning is decentralized.

The range of possibilities has been indicated by describing briefly four broad stages of decentralization: centralized administration, limited decentralization, delegated authority, and bottom-up administration. These stages are only suggestive of possible arrangements. There is no sharp division between them, and one pattern may be followed within a department or for a particular subject that differs from the typical pattern in the company.

Usually an executive can determine how much decentralization is best by considering the following: Who knows the pertinent facts, or can get them most readily? What is the capacity of men at different levels to make wise decisions? Is there need for speedy decisions adapted to local conditions? Is coordination with other activities particularly important? How significant is the decision? How busy are the executives involved? What will be the effect on morale?

This chapter is the third dealing largely with relationships established in administrative organization. First, guides for the use of simple delegation were examined. Then the possibility of adding staff as a supplemental aid to the simple boss-subordinate relationship was explored. And here the practical issue of where, in this flow of ideas and obligations, the real decision-making should take place was analyzed.

The principles developed in these three chapters, together with those covering departmentation (Chapters 8 and 9), deal with the organization issues faced most frequently by executives. Attention will next be given to the use of committees and boards of directors, and then all of these concepts will be drawn together in the chapters on organization structure.

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Chapter 13

USE OF COMMITTEES

The use of committees, boards, councils, and similar groups as an administrative device may be traced back to Greek, Roman, and other ancient civilizations. It has been particularly popular in Anglo-Saxon countries where it has often been regarded as an aspect of democracy, and it is now found in all types of cooperative human endeavor—churches, schools (children are taught to form committees at about the same time they learn to write their names), unions, governments, and business enterprises. Yet, in spite of generations of diverse experience with the use of committees, there is probably no administrative device more commonly abused than this one.

Since there is so much confusion regarding committees, it will be useful to consider, first, what this popular remedy for administrative ills is.

Nature of a committee

A committee consists of a group of people specifically designated to perform some administrative act. It functions only as a group and requires the free interchange of ideas among its members. Membership on a committee typically is only a part-time assignment, that is, the members have other duties which consume a major portion of their efforts. To expedite action of the committee one person is normally designated as chairman.

This definition includes both temporary committees, which are disbanded as soon as their particular missions are completed, and standing committees, which have continuing responsibilities. Moreover, it includes committees that perform auxiliary or staff duties, as well as those with authority to make final decisions.

The definition is intended to exclude those impromptu conferences that frequently arise when an executive calls into his office several of his assistants, or a number of individuals from separate departments whose work is associated. Also excluded are those large conferences

and meetings in which the interplay of ideas is limited to occasional questioning of the speaker. Such conferences can be important in training and directing, but their consideration here would tend to confuse the basic issues regarding the use of committees.

Committees are used for a wide variety of diverse purposes. Consider, for example, the following. The budget committee, usually composed of major operating executives, agrees upon over-all programs of operation, and then, if actual conditions do not permit the achievement of this program, it develops revisions necessary to keep the operation in balance. By contrast, the typical grievance committee consists of an equal number of representatives from the lower levels of management and the union, and is concerned with negotiating settlement of individual employee grievances.

A suggestion committee, on the other hand, should consist of individuals who are recognized for their fairness and objectivity, as well as their willingness to make changes; this group is charged with appraising the practicability of employees' suggestions and deciding upon awards that should be granted. A safety committee, to cite still another example, is made up of representatives from each important section or department (membership is considered an honor and is often rotated from year to year); while the group may develop new ways of securing safety, its primary purpose is to educate and generate enthusiasm of the members and their constituents for the program worked out by the safety director.

This variety of possible uses of committees means that the administrator should be careful to select those tasks where group action will be advantageous, and then make arrangements necessary for effective work. Unfortunately, this is not always done. Some individuals regard committees as a sure-cure for all administrative difficulties. Whenever a difficult decision must be made or where action is not proceeding smoothly, the standard answer is "Let's appoint a committee." In many cases, group action is not called for, and often the duties of the committee are poorly defined. Such use of committees leads to habitual procrastination. It is an opiate taken in lieu of effective administrative action. Clearly, such use of committees is to be avoided.

A basis for the use of committees as a practical administrative device will be provided by considering:

1. Advantages of committees
2. Limitations of committees

3. When to use committees
4. Suggestions for effective operation of committees

Advantages of Committees

Important among the reasons for using committees are to.

1. Provide integrated group judgment
2. Promote coordination
3. Secure cooperation in execution of plans
4. Train members and obtain continuity of thinking

A single committee will rarely provide all of these benefits, but often two or more can be secured, at least to some extent.

Provide integrated group judgment

The old saying, "two heads are better than one," is a bit too simple for the administrator who is trying to decide where committees may be employed advantageously. He must look deeper to determine when group judgment will be a distinctly superior decision.

Group judgment is particularly valuable when a wide range of experience and knowledge must be brought to bear upon a particular question. Some management problems require consideration from a marketing, production, engineering, legal, and perhaps financial viewpoint. Others may not have as many different aspects, but call for intimate knowledge regarding different customers. By having several individuals meet together to discuss these problems, their combined backgrounds and abilities may be utilized. Often problems are so complex that a single person cannot be expected to possess the range of abilities and detailed knowledge needed for their solution.

Moreover, there is considerable stimulation in the free interchange of ideas. Not only is there a pooling of ideas, but the views of one man may stimulate the second to think of something that occurred to neither of them before, and this new idea may generate in the mind of a third person still another thought. Thus, if the members of a group are open-minded and sincerely trying to find the best solution to a particular situation, the group consideration may be very creative. Careful psychological studies on this point have been limited, but the evidence that does exist suggests that under favorable circumstances the answer arrived at by group consideration is better than the answer any one member of the group would select if he acted alone.[1]

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[1] For a comment and reference to some of these studies, see Ernest Dale, "Group Organization and Output," *Management News*, Spring, 1949.

There is at least an aspect of safety in group judgment. Group consideration tends to guard against personal bias and occasional mental oversight. Also, the diversity of backgrounds of the various members tends to make each of them view the problems from an over-all point of view, that is, they identify themselves with the general purpose rather than with their narrower departmental objective. Even if this matter of safety is viewed as an averaging process, the group decision will be better than the worst of the individual decisions might be, and, for reasons already discussed, it is likely to fall closer to the best of the individual decisions than the worst.

Thus, if a committee is properly selected and the members are sincerely trying to find the best solutions to the problems with which they are confronted, the benefits of group judgment may be obtained. A wide range of experience and knowledge can be brought to bear on complex problems, creative ideas may grow out of the group discussion, and, as a minimum, there is an element of safety in the group decision.

Promote coordination

Committees are often used to help secure coordination. This was illustrated recently in the management committee of a power lawn mower company. The purchasing agent reported that delivery of a particular type motor would be delayed several weeks. He discussed with the production manager the desirability of slowing up deliveries of parts that would be used with this particular motor, and also the speeding up of parts for mowers that might be produced ahead of schedule in place of the delayed model. The sales manager was, of course, vitally interested in the entire discussion, because it affected delivery promises he could make to customers. Rather than modify production schedules substantially, he was interested in at least partial assembly of all machines, with concentrated attention on adding the motors once they were received.

Meanwhile, the personnel manager was thinking about the effect of the production schedule on his plans for recruiting and training extra help to meet the seasonal production peak. The treasurer was interested because any change in receipt of raw materials and parts would affect his cash disbursements, and delay in deliveries would postpone the time at which he could collect accounts receivable. The discussion of this problem in the committee permitted each member to understand why a change was necessary, to suggest the modifications that

would have the least disrupting effect upon his operations, and to understand fully the agreed-upon plan and the likelihood that the plan might be revised again. The resulting unified action contributed substantially to economic operations.

The use of committees promotes coordination in several ways. Each member develops some awareness of the problems of other organizational units represented on the committee, and of the effect of his own actions on these other units. Moreover, it provides for the easy interchange of current information among the members of the committee. Often, data presented in connection with one problem later proves to be helpful in dealing with other issues. Finally, committee meetings often provide the occasion when coordinated plans may be agreed upon. When no single member of the committee has authority over all of the operations involved, such a joint agreement on a course of action is vital to coordination. Even in those instances when a voluntary agreement cannot be worked out, the discrepancies can be recognized and referred to a higher executive for final decision.

The entire subject of coordination is considered more fully in Chapter 22, where it will be pointed out that committees are only one of the more important ways of securing coordination. It is sufficient to note here that coordination through committees depends upon voluntary agreement of several individuals, and to be really effective the executives in charge of the activities to be coordinated should serve as members of the committee (with the possible substitution of over-all staff assistants, if such positions exist). The existence of other coordinating devices, however, in no way detracts from the very important role that committees can play in some circumstances.

Secure cooperation in execution of plans

A recent study of administrative conferences in seventy-five different establishments found that, although securing group judgment was the nominal reason for calling most conferences, over 70 per cent of the executives said that the primary purpose was to secure successful execution of the decisions reached.[2] Even allowing for the fact that the study included some impromptu conferences that cannot properly be called committees, it is still evident that the use of committees to "sell" ideas is much more prevalent than is generally recognized.

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[2] M. Kriesberg, "Executives Evaluate Administrative Conferences." *Advanced Management*, March, 1950, pages 15-17.

Among the reasons why committees engender cooperation is the well-known psychological reaction to participation. When an individual has a part in formulating a plan, he is much more interested in seeing that it is properly executed. Even when his contribution is small, the plan is partly his, and his satisfactions rise or fall as the plan succeeds or fails. Consequently, when a plan is discussed and approved by a committee, the members of that committee are much more enthusiastic about its successful fulfillment.

Also, a plan approved by a committee typically carries more weight than one developed by a single member of the group. Subordinates, associates, and even seniors are more inclined to accept decisions resulting from careful group deliberation. Being a group decision, it is presumed to be a wise one, based on a full consideration of all the facts and free from prejudice, and the decision carries with it the combined social pressure and prestige of the entire committee membership.

Committee discussion of plans also helps in their execution by clarifying instructions. As a result of the discussion, the members know what is intended and through their improved grasp of the total situation they are more likely to make consistent interpretation of the instructions issued.

This psychological desire to see one's own ideas succeed, the additional weight attached to a decision backed by an entire committee, and the clarification of directors that result from committee discussion combine together to make the committee a potent device for securing cooperation in the execution of plans.

Train members and obtain continuity

Participation in committee discussion extends the contact each member has with the various activities of the enterprise and gives him some insight into the point of view and the problems of other divisions. Each member is likely to have to defend his own ideas, and consequently thinks them through more carefully. Some companies that make wide use of committees insist that, over a period of years, the quality of executive decisions is substantially improved because of the broadening experience that committee work has provided to the key men. They feel that committee work not only stimulates the individual, but makes each person think in company-wide terms rather than on a departmental basis. All this is good executive training.

Another aspect of committee operation that sometimes is impor-

tant is the continuity of thinking that the multiple membership makes possible. This continuity is formally provided in groups such as the United States Senate where only one third of the members may be replaced at any one time. Most committees have no set rules for replacement of members, but rarely are all members replaced simultaneously. Consequently, there are always some members of the group who know the reasons for previous action, and this tends to promote a consistency and continuity of thinking that is difficult to achieve when an executive who has been making decisions by himself has to be replaced.

Rarely are committees used solely for the benefit of training the members or to secure continuity. In some circumstances, however, these can be real advantages, and, when added to one or more of the benefits already discussed, may swing the balance in favor of deciding to use a committee.

Limitations of Committees

The assignment of an administrative task to a group of people instead of an individual has a number of serious disadvantages. Before determining to use a committee it is necessary to consider carefully whether these disadvantages outweigh the benefits that may be secured from group action. The principal limitations of committees are:

1. Slow and expensive action
2. Divided responsibility
3. Danger of compromise decision

Slow and expensive action

Getting a committee together for a meeting is often a difficult task, and the busier the individual members the more difficult this becomes. The treasurer may be out of town one day, the sales manager may have discussions scheduled with out-of-town salesmen on the following day, a board meeting may take up the time of two members on the following morning, and in the afternoon the controller leaves for a week's trip to branch offices, with a final result that the earliest time the full committee can meet is two weeks hence. Even if a meeting is called with one or two members absent, it may be a day or two before the smaller group can be assembled, and then action on certain matters may have to be deferred until the absent members can be consulted.

For committees with recurring business this difficulty can be avoided in part by a regularly scheduled time for meeting. This usually means that any action of the committee must be postponed until the next regularly scheduled meeting. These difficulties are so common they need no elaboration. The result is that it almost invariably takes longer to get action from a committee than it does from a single individual.

Committees are also expensive in terms of man-hours expended. An hour-long committee meeting of half a dozen executives will require a minimum of nine man-hours when preparation time is considered. If salaries are distributed on an hourly basis, this meeting may "cost" around a hundred dollars. A more accurate cost estimate would be the total value to the company of the work these executives might do if they were not in committee. When committee meetings are frequent and are permitted to interfere with the performance of other work, this cost may be substantial.

The interchange of ideas, which is an essential aspect of committee work, increases time and expense involved. Each person is expected to state his views, to listen to the views of other members (however inconsequential), to comment on the differences, and to explain why he takes the position he does. Valuable as such discussion may be, it also extends the time needed to reach a conclusion. A single individual, who does not need to expound and explain, can reach a conclusion with a much shorter expenditure of his own time, let alone that of other members of the committee. Obviously, the benefits of committee action must be large before the use of this administrative device is warranted.

Divided responsibility

"That which is everybody's responsibility, is nobody's responsibility." Theoretically, this is not so, for each member of a committee should feel as much responsibility for seeing that the assignment is properly completed as he would if it were given to him alone. He may be restricted in the way he fulfills his obligation, and he may be outvoted in the committee meeting, but this in no way reduces his personal responsibility to do the best he can.

Unfortunately, the typical person doesn't live up to the theory. Most of us, when appointed to a committee, recognize some obligation to put in a physical appearance at the meeting when called; but

we give little thought to the matter outside of the meeting and spend no restless nights if the deliberations bog down. If a reasonably satisfactory solution is suggested we are quite willing to approve it, even though we might not do so if we had to make the decision alone. Then, if subsequent events prove the decision to be a bad one, we shrug our shoulders and say that it wasn't our idea anyway.

The thinning out of responsibility that tends to occur when a committee is appointed is most troublesome when the chief purpose of the committee is to secure group judgment, particularly if the judgment is a final decision rather than merely advice. How can individual accountability be established in such situations? It is straining the logic to say that each member is separately responsible just as individual partners may be held legally liable for the debts of a partnership, because an individual member may have been urging a course somewhat different from that finally adopted.

It has been suggested that this difficulty be overcome by keeping a careful record of the position taken by each member, and by including in the minutes an account of how each person voted. In addition to being clumsy, such a procedure interferes with arriving at good group judgment. Individual members sometimes become more concerned with the appearance of the record than with the final decision reached, and make speeches and take positions in an effort to impress their constituents or their senior executive. Such playing to the grandstand seriously interferes with creative group thinking, as described in the preceding section. In most business enterprises, if committees are justified at all, they should not be hampered with the reporting of who said what, even though this may mean sacrificing some individual accountability.

The dilution of initiative among committee members can be partially overcome by assigning to the chairman of the committee responsibility for seeing that some type of action is taken. For this purpose, it is desirable to have a chairman of sufficiently high stature relative to the other members so that he can effectively prod them into action. This often works well when the primary purpose of the committee is to secure coordination or greater acceptance for a particular decision. Where the primary purpose is to secure integrated group thinking, however, care must be taken that the chairman does not so dominate the entire group that there is little gain from holding committee meetings.

Danger of compromise decision

When difference of opinion exists in a committee there is always a possibility that some sort of average or compromise solution will be adopted. All too often some member says, "Let's agree on something; I have to get back to my desk." One executive committee, for example, considered at length the desirability of hedging as a policy, but decided not to put it into effect immediately, and later to cover only certain parts of the inventory. This compromise decision was neither fish nor fowl. Some executives thought the company was protected against price fluctuations, whereas in fact the company was scarcely covered at all.

Napoleon had little use for extended conferences with his generals for this very reason. In his Forty-Fifth Maxim of War he states: "The same consequences, which have uniformly attended long discussions and councils of war, will follow at all times. They will terminate in the adoption of a worse course which in war is always the most timid, or if you will, the most prudent."

Although conferences sometimes arrive at wise decisions, this is not always the case. Witness the company that made such a drastic cut in expenses of a sales promotion campaign that the advertising effort was ineffective. Clearly, the decision should have been either to cut the expenditure entirely, or to give the campaign sufficient backing so that it would have a good chance of success. Committees do not necessarily lead to undesirable compromises, but there is an ever-present danger that they will.

Committee members do not always approach problems with an objective and open-minded attitude. An unfortunate political atmosphere sometimes develops in which members support one another more as a favor than on the merits of the issue. Thus, if Mr. X knows he will be asking a favor of Mr. Y tomorrow, he may be very careful not to antagonize Mr. Y in the committee meeting this afternoon. It takes a careful selection of members and a skillful chairman to avoid this sort of difficulty.

Voting is undesirable. This danger of committee politics raises the question of when a majority vote should be used to reach a committee decision. When a committee is charged with making final decisions on operating matters, it often is necessary to take a vote in order that action may proceed. In most situations, however, it is desirable to avoid counting the ayes and nays, particularly in the

early stages of discussion. Where the purpose of the committee is to promote cooperation or to bring about voluntary coordination among the members, a vote on a controversial issue is of no particular benefit. The fact that a single member is outvoted in a committee does not necessarily increase his willingness to cooperate in a particular activity.

A more effective technic in such circumstances is to be guided by the "sense of the meeting." Unless an individual feels very strongly on a particular point, he will probably join in the course of action suggested. Where committee serves in an advisory role, it is entirely practical to report a difference of opinion with the alternative proposal. This sort of a report is probably more useful to the man making the final decision than is a single recommendation adopted by a three to two majority. Such an informal committee procedure reduces the dangers of compromise and political action, but will not entirely eliminate them.

The disadvantages of committees can be overcome to some degree by care in their establishment and operation. A few suggestions in this regard have already been made, and others will be found in a later section of this chapter. Even under the most favorable circumstances, however, committees do have serious limitations. The very nature of group action means that it is more unwieldy and expensive than individual action. The spreading of responsibility among several people weakens to some extent individual initiative and accountability, and there is an ever-present danger that committee members, because of their desire to be on friendly terms with fellow members, will approve undesirable courses of action. These limitations should be recognized, and a committee used only when they are clearly offset by advantages arising from group action.

When to Use Committees

Categorical statements as to when committees should be used are as difficult to make as definite rules about when a child should be given a spanking. Each time the total situation should be appraised, and the remedies adapted to the particular conditions. Committees, like spanking, should be used sparingly, yet there are times when nothing else seems to be so clearly needed.

A survey of thirty-one well-known industrial companies showed that the following committees were particularly useful for top management—coordinating committee, wage and salary committee, ap-

propriations committee, products committee, personnel committee, pensions and benefits committee. By no means all the companies had such committees, however, and there were many others, particularly temporary committees and committees operating in the lower echelons.[3] To attempt a comprehensive list of all types of committees that have been found useful in one company or another would be not only tedious but definitely misleading, because the needs of the different companies vary.

The most basic advice that can be given is never to establish a committee unless the advantages of group action appear clearly to outweigh those of assigning the task to a single individual. Contrariwise, be prompt and persistent in dissolving committees that have completed their mission or outlived their usefulness.

Although it is hazardous to recommend specific committees, it may be helpful to identify types of situations when committees are likely to be beneficial and situations in which committees should usually be avoided. The following list, which grows out of the preceding discussion of advantages and limitations of committees, is quite incomplete but it will emphasize again certain characteristics of committees.

Conditions favoring the use of committees

Committees are likely to be particularly useful:

1. *When a wide divergence of information is necessary to reach a sound conclusion.* A product research committee, a pricing committee, a budget committee all deal with problems calling for information from several different departments, and often a committee composed of men who are intimately familiar with the details of these departments can provide good group advice and also assist in the coordination of action agreed upon.

2. *When the decision is of such importance that the judgment of several qualified individuals is desired.* The salary committee and an appropriations committee illustrate this point in internal operations; they protect against personal bias and their decisions are more readily accepted by all parties directly affected. It is significant to note in this connection that virtually all large enterprises—business, charitable, government or religious—are headed up by a group, be it called board, council, assembly, or some other name. When discretion is wide,

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[3] P. E. Holden, L. S. Smith, and H. L. Smith, *Top-Management Organization and Control*, Stanford University Press, 1941, pages 59 ff.

power is great, and vital issues are at stake, we believe that in numbers there is safety. The nine (not one) justices of the Supreme Court, to cite another instance, are provided to secure wise and acceptable decisions.

3. *When successful execution of decisions depends upon full understanding of their ramifications.* A committee to help plan the introduction of a new process, or the move to a new plant, for example, may be quite useful because considerable adaptation and implementation of the basic scheme is required of each member, and it is important that he understand and be in full agreement with the procedure adopted.

4. *When activities of three or more divisions need to be adjusted frequently to secure coordination.* An advertising and sales promotion committee, a production scheduling committee, or an over-all management committee often serve as a vital link in the coordination of related operations.

It is significant to note that most of the committees mentioned above do not need to be given authority to make final decisions. Their over-all effectiveness will probably be enhanced if they are not concerned with political jockeying and counting of noses, but instead rely upon giving advice to key executives or upon voluntary agreement among the members. The important exceptions are boards of directors, salary committees, and similar groups where a "safe" decision is reached; here the primary purpose is to secure group judgment, which becomes authoritative.

Conditions unfavorable to the use of committees

Committees are usually not desirable:

1. *When speed is vital.* For instance, in the negotiations of a purchase or sale, or in dealing with emergencies, prompt action is usually more desirable than the slower action based upon deliberations of a committee.

2. *When the decision is not particularly important.* If the decision of a committee can affect expenditure of only a few dollars, if employees are glad to cooperate with any reasonable program, or if coordination can be achieved through established procedure and individual contacts, the expense of committee action will almost surely outweigh the benefits received.

3. *When qualified personnel is not available.* Even when a problem is suitable for committee action it will be unwise to establish a committee unless there are appropriately qualified individuals in the enterprise who can devote the required time to the committee. As will be explained later, the desired qualifications of members of a committee depend upon its purpose. If such individuals are not available in the company, or are so busy that they give the committee scant attention and send poorly qualified alternates who can not speak for them, the committee is doomed from the start to be ineffective.

4. *When the problem is one of execution rather than decision.* Committees function as a group, and it is certainly costly if not impossible for several men jointly to explain and interpret directions, review actual performance, give praise or blame, and otherwise motivate the employees who are carrying out a plan. Supervision is a process that committees do poorly and expensively, if they do it at all.

Execution of committee decisions

The preceding injunction against giving committees responsibility for execution naturally raises the question of who should be responsible for carrying out their decisions. Of course, in those situations where committees are advisory or depend upon voluntary agreement among the members (and this is true most of the time), responsibility for execution rests in the established channel of command. The creation of such a committee does not alter the authority nor the obligations of any of the operating executives; the committee functions in a purely staff capacity.

When committee decisions are authoritative, however, someone must be designated to see that their decisions are properly carried out, and, as has been noted, the committee itself is poorly suited to such a task. There are two solutions that work reasonably well. One is for the committee to have a single operating executive, such as is found in the relationship between the president and a board of directors of a business enterprise. Sometimes the chairman of the committee or its secretary acts in an executive capacity on behalf of the committee. This is a somewhat awkward arrangement, since the operating deputy will have a whole group of bosses, but it is a far more workable arrangement than permitting each member of the committee to act in an executive capacity.

If a committee makes authoritative decisions on matters that clearly fall in the province of one or more divisions, it is usually better to have

the existing operating executives carry out the committee decisions. The committee then has "functional authority" to specify what is to be done with respect to certain types of activities, and, as is always true for functional authority, relies upon the established channels of command for execution of its decisions.

Suggestions for Effective Operation of Committees

Having decided to establish a committee, necessary provision to make it effective should then be made. Minimum steps toward this end are the following:

1. Define the duties and authority of the committee clearly.
2. Select members in view of the duties of the committee.
3. Support the committee with necessary staff assistance.
4. Design procedures to obtain prompt and effective action.
5. Appoint the right chairman.

Define duties and authority clearly

A clear statement of the objectives, duties and authority of a committee will contribute substantially to its success. The members themselves will then know what is expected of them and also what is outside of their assignment. All too often committees with fancy titles are simply appointed, and they flounder around because they do not know what they are supposed to do. Likewise, it should be made clear whether committees are to serve in an advisory, coordinative capacity, or whether their decisions are authoritative and, if so, upon whom.

Many individuals in the enterprise will be concerned directly or indirectly with committee action, and it is important that they, as well as the members, appreciate the role of the committee. They should know the kind of help that can be expected from the committee and also the problems that are outside its province and must be dealt with through other channels. If there is justification for appointing a committee at all, then its duties are important enough to warrant clear definition. An example of the statement of the functions and procedure of a committee is given in Figure 21.

Select members to assure objectives

There is no such thing as an ideal committee member—when speaking in general terms. The type and number of people needed on a specific committee depend upon its purpose. For instance, on a coordinating committee it is desirable to have the key operating execu-

PAW–Organization Manual Plan No. 3.20

DOMESTIC OPERATING COMMITTEE

Membership

ASSISTANT DEPUTY ADMINISTRATOR (B. K. Brown), Chairman
Director, PRODUCTION Division
Director, NATURAL GAS & GASOLINE Division
Director, REFINING Division
Director, SUPPLY & TRANSPORTATION Division
Director, DISTRIBUTION & MARKETING Division

Executive Secretary–J. H. Thacher

Other Directors will attend for discussion of specific matters within their respective fields upon invitation or upon their own initiative after clearance with the Chairman. The Program Director, Assistant Director in charge of Refinery Operations and Chairman of the Operating Sub-Committee will be expected to attend all meetings and participate in the discussions.

Province

To assure unified and coordinated action by PAW in its guidance and direction of the petroleum industry in the United States and its territories.

Functions

In achieving this objective, the Committee will perform the following functions:

1. Consider, coordinate and agree upon domestic operating PROGRAMS which will best meet essential domestic and export petroleum requirements of the United States within the limits of available resources, subject to final integration with foreign programs and concurrence of the Deputy Administrator as necessary.
2. Coordinate the OPERATING PLANS and activities of the domestic Operating Divisions as necessary in carrying out these Programs, taking action to resolve problems affecting more than one Division, to the full extent of the authority of the individual members.
3. Provide the DEPUTY ADMINISTRATOR with the coordinated advice and judgment of the membership in regard to domestic operating problems requiring his attention.
4. Pass upon the general operating feasibility of proposed ORDERS, DIRECTIVES AND POLICIES initiated by the various Divisions, or referred to it by the Deputy Administrator's Office.

FIGURE 21. Job Description for a Committee.

Plan No. 3.20/2

Procedure

1. Regular meetings will be held Mondays and Thursdays at 3 o'clock in room 6071.
2. The Executive Secretary will prepare an agenda, record and follow actions taken, and distribute brief minutes promptly after each meeting.
3. The Committee will look to the Program Director to formulate and present Domestic Supply Program alternatives for Committee consideration.
4. The members will present matters in the form of concise summaries or proposals, ready for action at the meetings.
5. Action will be taken by the Chairman, with the advice and counsel of the other members, subject to clearance with the Deputy Administrator as necessary.
6. Matters affecting more than one Division which require action of the Deputy Administrator will first be submitted to the Committee for its recommendation.
7. The Committee may assign problems to and request information from the various Operating Divisions and Staff Agencies of PAW.

APPROVED: R. K. Davies
DATE: March 24, 1944

FIGURE 21 (*Continued*).

tives concerned. On the other hand, a committee primarily intended to win the cooperation of a large number of employees probably should be composed of a bigger group of individuals who are the natural leaders among their fellow workers. Members of a committee designed to bring together divergent information will be picked more for what they know than their relationship with other workers. Where wise, objective judgment is desired, as in the Supreme Court, the character of the individuals rather than representation should be the primary consideration.

Obviously then, the popular notion that all committees should be "representative" is a fallacy. Sometimes representation is highly important, although even here the particular divisions, factions, functions, or social groups that should be represented will be determined by the purpose of the particular committee. In other instances we are much more concerned with the ability of particular individuals, or perhaps with their authority to make commitments—to a revised sales

program, for example. With committees, as in any instance of staffing, the job and the individuals must be fitted to each other.

The number of individuals who should be appointed to a committee is often influenced, if not dictated, by its purpose. A coordinating committee, for example, must obviously include representatives of the various sections and divisions to be coordinated. As a general rule, however, the number of members on a committee should be kept as small as it is possible to keep it and still achieve the objective. The larger the committee, the more expensive and unwieldy it becomes. More man-hours are represented for each hour the committee meets; a greater number of views must be heard and reconciled; there is more danger in getting bogged down in minutiae or irrelevant issues; and even the matter of finding a time when all the members can meet may cause serious delay. Consequently, there are great advantages in holding committee membership down to three or four individuals.

One means that sometimes helps in keeping the membership of a committee small is to provide that certain individuals will meet with the committee when they can contribute to or benefit from the discussion, but not include them as regular members. When the desirability of adequate representation makes necessary a large membership, it may be practical to divide the entire group up into subcommittees, including an executive committee, and thereby substantially reduce the frequency and length of the meetings of the full committee.

Support the committee with staff assistance

A great deal of committee time can be saved by staff work prior to meetings. Sometimes the chairman does this work, or if he is too busy it may be done by a part-time or a full-time secretary. Of course, if the duties of the committee fall within a general area covered by a service or staff division, the chairman or the secretary often receives a great deal of assistance from this division.

The nature of this staff work is very similar to that already described in Chapter 11. The staff man prepares an agenda, assembles facts, perhaps draws up tentative recommendations, distributes the agenda and summaries of the assembled information to members a day or two ahead of meetings so that they may have time to study the data and consult their own advisors prior to the committee session, prepares minutes, advises people of action taken, and follows up on unfinished business. When such staff assistance is provided, the mem-

bers can come well prepared and concentrate during the meeting on interpretation and evaluation of the information presented.

Design procedures for prompt and effective action

Standing committees, particularly, can often simplify and speed up their work by agreeing on procedures for the handling of certain types of problems. An appropriations committee, for example, may require stipulated kinds of information on all requests and a summary of this information on one or two specially prepared forms. Moreover, it may then provide that certain types of requests will automatically be approved unless some member wishes to raise a question about them. It can further simplify its work by insisting that related requests be considered at the same time.

Such committee procedures, along with the use of staff assistance, can go a long way toward overcoming the objection that committees often take up too much of the time of busy executives.

Appoint the right chairman

The chairman is the key man in every committee operation. He guides the proceedings, sets the tone of the meetings, supervises and perhaps performs the staff work, and often consults informally with members between meeting sessions. He does not do all the work himself, but sets in motion the mechanism whereby the group action becomes purposeful and efficient.

Summary

The primary justifications for the use of a committee instead of a single individual are to obtain the benefits of integrated group judgment, promote coordination, secure cooperation, or train the members. Committees can be particularly useful when a wide divergence of information is necessary to reach a sound conclusion, when the decision is of such importance that a "safe" judgment of several qualified individuals is desired, when successful execution of decisions depends upon a full understanding of their ramifications, and when activities of three or more divisions need to be adjusted frequently to secure coordination.

Committee action, however, is slow and expensive, responsibility is divided, and there is danger of compromise decisions. Consequently,

there should be prospects for outstanding benefits from group action before a committee is appointed. Especially is there doubt as to the wisdom of committees when speed is vital, the decision is not particularly important, qualified personnel is unavailable, or the problem is primarily one of execution.

If it is decided that a committee is warranted, then its effectiveness can be improved by carefully defining its functions, selecting members in light of the specific functions, providing staff assistance, adopting procedures that will expedite the work, and, last but not least, selecting the right chairman.

Committees are no panacea for management ills, but for proper purposes they can be extremely useful.

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Chapter 14

ORGANIZATION FOR TOP ADMINISTRATIVE FUNCTIONS AND INTEREST REPRESENTATION

Virtually every executive in a business enterprise is concerned directly or indirectly with the actions of the board of directors. The actual role performed by this select group of individuals, however, varies greatly from one company to another and there is not a little confusion as to what the group should really do. The two major issues of particular interest to operating executives are:

1. How can adequate provision be made for the performance of top administrative functions?
2. What provision should be made for representation of interest groups?

Provision for Top Administrative Functions

For every enterprise someone must establish basic objectives and policies, select the top executives, and provide broad, over-all guidance to the affairs of the firm. In sole proprietorships and partnerships these top administrative functions are performed by the owners, inasmuch as such firms do not have an existence separate from the people who own it. Corporations, and almost every medium and large scale enterprise is a corporation, pose a different sort of problem because they are independent social institutions, separate and apart from the owners or any particular set of officers. As Chief Justice Marshall said many years ago:

> A corporation is an artificial being, invisible, intangible, and existing only in contemplation of the law. Being a mere creature of the law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence. . . . Among the most important are immortality, and, if the expression may be allowed, individuality; properties by which a perpetual succession of many persons are considered the same, and may act as a single individual.[1]

[1] Dartmouth College Case, 4 Wheaton 636.

If the corporation is an artificial being, who, then, is to decide the types of products or services it will sell, whether facilities will be expanded and if so at what location, its basic attitude towards organized labor and government regulations, whether new capital is to be secured by additional stock or bonds, the desirability of a merger with a competing firm, whether the chief executive should be discharged because the firm is losing position in its industry, and other such issues?

Within the organization structure similar questions are handled through the executive-subordinate relationship; the shop superintendent receives his directions and authority from and is accountable to the production manager. Likewise, the production manager is responsible to the chief executive. But to whom does the chief executive report? Who sets the guideposts within which he is to operate? Who selects his successor?

These questions will be discussed under the following headings:

1. Indifference and impotence of stockholders
2. Nominal functions of a board of directors
3. Composition of a useful board
4. Realistic duties for a board
5. Informal counsel of individual directors
6. Executive organization for top administrative duties.

Indifference and impotence of stockholders

The stockholders or owners are in a weak position to exercise any real leadership in the affairs of corporations, at least of large corporations. Aside from the right to vote on changes in the charter or the financial structure, and a few relatively insignificant rights, a stockholder's power to influence the affairs of the corporation is confined to his voting for directors. Of course, if an individual owns a large proportion of the shares of stock outstanding, his influence on the administration of the corporation via the election of directors may be substantial. If such an individual wishes to influence in administration, however, he almost always is a director or an executive of the company, because he can then deal more directly with administrative matters.

In fact, the great majority of stockholders show considerable apathy toward the administrating of affairs of the company they own. They typically fail to come to stockholders' meetings, and aside from keeping the company informed of where to send dividend checks, show little interest in guiding the activities of the business. The only stock-

holders who show up at the annual meeting of many corporations are also directors or officers, and the meeting becomes a purely perfunctory affair.

The influence of stockholders is further reduced by two common practices. First, in most corporations, the holders of the majority of the stock represented at an annual meeting can elect *all* the directors. Consequently, a stockholder with even a 25 per cent interest can secure representation on the board of directors only if those with majority control so desire. Second, most stockholders do not attend meetings personally, but authorize someone to act for them by proxy. Since the existing management of a corporation is in a favorable position to secure such proxies, it usually controls the votes of a majority of the stock represented at the meeting.

If one or more stockholders who are not executives of the company wish to force a change of administration, they must obtain enough proxies from other stockholders to control a majority of the votes at the subsequent stockholders' meeting. They are at a disadvantage in doing this because (1) they do not have access to company information by which to demonstrate the advantages of their proposal, (2) they would have to finance personally the expense of soliciting proxies, whereas existing management uses company funds, and (3) the burden of proof is upon them because sheer inertia tends to perpetuate the existing management. As the number of stockholders in a company increase, it becomes more difficult for anyone other than the existing management to obtain control over a majority of the votes for directors. This impotence of stockholders adds to their indifference.

There is, to be sure, a growing practice of submitting proposed actions such as new pension plans, managerial bonuses, new plants, or similar changes to stockholders for their approval. Sometimes, stockholder approval is required by the corporation charter or by legislation, but in other instances the corporation management voluntarily seeks endorsement of its plans. Here again proxies are used; the stockholder, lacking adequate information to decide otherwise, almost always votes as recommended by the company management. The practice may cultivate the good will of stockholders, and it also protects the corporation officials against criticism later, but it has been ineffective in gaining active participation by stockholders in the administration of business.

Clearly, then, stockholders of most corporations cannot and will not provide the dynamic leadership needed in the performance of top

administrative functions. Nevertheless, stockholders are an important interest group and, as will be pointed out in the latter part of this chapter, it is important that management maintain good relationships with all such groups.

Nominal functions of a board of directors

If the basic direction of a corporation does not come from the stockholders, as such, what then of the board of directors?

Legal theory and a considerable body of the older management literature give support to the concept that the board of directors is the real central point of direction and control of corporate activity. Unquestionably, the legal power to appoint officers, expend funds, and otherwise direct the management of a company is vested in the board of directors. The same legal statutes, charters, and customs proceed to create the offices of president, secretary, and treasurer, and stipulate that administration of the company's affairs is to be handled through the officials. Nevertheless, in legal theory these officers are clearly subservient to the guidance of the board of directors.

Consistent with this legal concept is the following statement by James O. McKinsey:

> . . . the functions of a board of directors may be summarized as follows:
> 1. It should be responsible for establishing the general objectives of the business.
> 2. It should establish the major policies of the business.
> 3. It should determine the organization structure of the business and select the major executives of this organization.
> 4. It should be responsible for "checking up" on the executives of the business to whom the responsibility for its administration has been delegated.[2]

Many students of management today believe this is a good summary of what boards of directors *should* do. Nevertheless, this statement is a little too vague for present purposes. The administrator who is trying to think realistically about top administrative functions will ask himself two questions: (1) How much help can be expected from the board in light of its composition? (2) Just what should a board do with respect to objectives, policies, organization, and executive personnel?

Should the board of directors be depended upon to originate and initiate action on such matters? Should it serve primarily as a counsel

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[2] See W. J. Donald, ed., *Handbook of Business Administration*, McGraw-Hill Book Co., 1931, page 392.

to company executives? Should it decide the specific path to follow? Should it confirm decisions of executives before they are put into effect? Should it give executives considerable freedom of action, and then concentrate on a review of the effectiveness of the executives' operations? For any major change in company operations, each of these steps—initiate, counsel, decide, confirm, review—should be taken, and the crucial issue is which should be done by the board. These questions call for more careful examination.

Composition of a useful board

The effectiveness of any committee depends in a large measure upon the qualifications of its members, and the board of directors is no exception.

Weakness of boards composed of executives. Many companies have boards of directors composed mostly, if not entirely, of company executives. The use of company executives as directors has a number of advantages. Such men are well acquainted with the industry and have intimate knowledge of internal problems of the company; there is no question of divided loyalty, and they have a real interest and incentive to make the company a success, inasmuch as their livelihood is dependent upon it.

There are two basic objections to boards of directors composed of executives of the company. Company executives are likely to lack the objectivity and independence of judgment needed. Their daily contact with specific company problems and their concentration on achieving short-run goals is very likely to interfere with their perspective and objectivity regarding over-all company operations. It is a rare individual who can be a hard-driving executive one hour, and a sagacious, dispassionate viewer of the company's chances of success the next hour. This is particularly true since the executive-director will be reviewing either his own actions or those of his associates with whom he should maintain cordial relations. Also, it is unrealistic to assume that a vice-president or department manager will take a critical view of the general competence of the chief executive during the few hours he is acting as a director, when during the rest of the working relationship he is clearly subordinate to the chief executive, and, in fact, is dependent upon the latter for his job.

The second objection may be considered a procedural one, but is none the less significant. Company executives are in daily contact with

one another and will normally work out their problems as they arise. Under such conditions, the board of directors' meeting is a relatively clumsy way of securing agreement on action to be taken. As a result, board of directors' meetings are likely to be called only when it is necessary to take some official action, such as the election of officers, the declaration of dividends, or the passing of a resolution authorizing the sale of property. These meetings are mere formality, because the real decision has been made earlier by the executives acting in their roles of executives. In such circumstances, board meetings are held only to conform to legal conventions, and the position of director is used primarily as a mark of status. At best, such a board of directors serves only as a top-management committee.

Typical limitations of "outside" directors. For directors who are not employees, companies often turn to lawyers, bankers, or other businessmen. These "outside" directors may have had business connections with the company for a considerable period of years. Sometimes a large stockholder or a person designated by him will be made a director, and men who have been both company executives and directors often continue as directors after their retirement from active work.

A board composed of such individuals has a number of advantages, the most important of which is greater objectivity regarding the company operations. The board represents a wider variety of experience and contacts, and consequently has a broader perspective when considering company problems. Theoretically, such a board is also independent of current management in its judgment; too much emphasis can be placed upon this point, however, since the management through the use of proxies can influence the tenure of individuals on the board.

The disadvantages of outside directors are, unfortunately, quite substantial. Only rarely do such men have a thorough understanding of the company operations. More serious is their lack of time to devote to company problems. Men with the maturity, experience, and judgment desired in directors are, by that very fact, likely to be heavily involved in other activities. Often, they are senior executives of some other business. All too often, these men are forced to give virtually no thought to company problems except during the hour or two each month they are actually at the meeting of the board. The combined effect of lack of company knowledge plus lack of time means that

these men cannot be expected to initiate action and really guide the destinies of the company.[3] Consequently, their primary function is one of advice.

One suggestion for overcoming the lack of interest and time outside directors give to a company is to pay them more for their services. For many years directors have received a nominal compensation of ten to twenty-five dollars per meeting, which for the type of men desired could scarcely command much of their time. The primary inducement for outside directors has been prestige, friendship with company executives, or as a protection to some business interest. It has been suggested that if these directors' fees were raised to a hundred dollars per meeting, or, as has been done by a few large corporations, up to five thousand dollars per year, a director could be expected to devote more time to company affairs.

This has been a constructive development, but does not yet appear to be a full solution. Undoubtedly some men have been induced to serve on boards who would otherwise be unavailable, and directors receiving such fees undoubtedly take responsibilities more seriously. However, many of the men serving on boards of directors simply cannot give a great deal of time and still fulfill their other obligations; and with high income taxes the increased amount of compensation is not a strong inducement for others. Merely increasing the compensation of existing directors certainly will not make a passive board into an active one.

A balanced board of directors. Since both outside and inside directors have their advantages, the strongest board of directors usually can be formed by combining men of each type. In order not to be dependent upon a single point of view regarding company activities, it is desirable to have more than one executive on the board. On the other hand, if the board is made too large, over, say, seven or eight individuals, it will be difficult to have a free interchange of ideas, and consequently some committees may be necessary.

Of more importance than any particular balance between inside and outside directors is the competence and attitude of the individuals involved. Insofar as practical, the board should be made up of men of varied experience and talents. They should not be "rubber stamps" or

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[3] There is also a danger that those individuals who are providing services or have other business relationships with the company will be confronted with occasional problems of divided loyalty.

"figureheads," and all should have a genuine concern for the over-all success of the company.[4]

Realistic functions for the board of directors

From what has been said it will be apparent that we cannot look to the board of directors as such to provide the dynamic, creative element in the administration of an enterprise. In fact, most companies will have difficulty enough in assembling a board of men reasonably well informed on company affairs, unquestionably loyal to the over-all interests of the company, objective and independent in their personal judgment, and with sufficient time and interest to really understand the problems the company is facing. It is the full-time executive who must carry the responsibility for the basic exploration and analysis of present and future problems, for well-considered and integrated plans of dealing with these problems, and for the spark and push that will give the corporation the perpetual life that is supposed to distinguish it from an individual. Nevertheless, a board of directors can and should render valuable assistance to the executive in the performance of these tasks, in the following ways.

Boards of directors should normally be asked to *confirm management decisions on major changes* in objectives, policies, organization, and single transactions that will have a substantial effect on the stability and success of the company. In the vast majority of cases, the board will probably approve the proposals of management without even minor changes. Nevertheless, the necessity of getting such decisions confirmed by a sympathetic, but semi-independent body, will have a salutary effect upon the executives. The very preparation of the proposal to present to the board will cause the executives to check through their facts and thinking again. And the possibility that the board may think of some additional aspects will lead to a thoroughness and caution that otherwise might be omitted.

The board should be a source of *constructive counsel* to the company executives. In this capacity the board does not formally approve or direct executive action. Instead, there is an exchange of views as to the business outlook, the possibilities of new governmental legislation, customers' and competitors' reaction to a contemplated new product,

[4] For a penetrating and stimulating picture of constructive board action, see M. T. Copeland and A. R. Towl, *The Board of Directors and Business Management*, Harvard Graduate School of Business Administration, 1947. See also, M. L. Mace, *The Board of Directors in Small Corporations*, Harvard Graduate School of Business Administration. 1948.

general wage policy to be followed, the desirability of pressing a tax suit, the prospects for refinancing a bond issue at a lower interest rate, and a variety of such questions. These discussions take place while the plans are still in a formative stage, and through them the executives get the benefit of the diverse experiences of their directors.

The board should *select the chief executives and determine their compensation*, and should confirm the selection and compensation of other key executives in the company. This is a very important and delicate matter, and the objectivity of the board can be particularly helpful in this connection. Incidentally, this personnel responsibility is not necessarily confined to "officers," who must legally be elected by the board of directors. The treatment of the general manager, who may not be an officer, is obviously more important than that of an assistant secretary whose position happens to be listed in the bylaws.

The board should regularly review the results of current operation. This serves two purposes. It helps keep outside board members informed about company operations, which is essential if they are to perform their other duties effectively; it also provides board members with an opportunity to *ask* what Professors Copeland and Towl call *discerning questions*. The discerning question is one that deals with some fundamental aspect of the company's operations; often the director asking the question does not have any factual basis for believing something is wrong, but he is uncertain in his own mind that the best action is being taken. Perhaps a majority of such questions can be answered satisfactorily by the company executives, but some of them will lead to investigations and perhaps significant changes in operating plans. After extensive investigations, Professors Copeland and Towl believe, "The discerning question is a director's principal tool and one of his major contributions to the management process." [5]

Informal counsel of individual directors

Executives can often get considerable help from their directors by talking to them informally. A discussion at lunch or even an occasional telephone call on a matter on which the director is well informed may be very useful. In fact, sometimes the director's most constructive work is done in these informal discussions.

In one company, for example, the treasurer was approaching retirement age, and, because he and some other company executives were also on the board, it was not thought propitious to discuss his replace-

[5] Copeland and Towl, *op. cit.*, page 95.

ment at a formal board meeting. The president and two of the directors discussed the problem at lunch twice, and reluctantly agreed that the replacement would have to be a man from outside the firm. These two directors helped the president select the new man, who was then rotated around in several positions in the company. Several years later, formal action by the board led to the retirement of the treasurer and the appointment of the new man in his place. But, the really constructive work had been done informally several years earlier. In another company an informal discussion between the treasurer and one of the directors provided the original impetus for the refinancing of the company's preferred stock.

The informality of such contacts makes it impossible to lay down rules for procedure with respect to them. Usually they are initiated by a company executive, although occasionally a director may have an idea he would rather pass on directly to the company management than take time in the meeting of the board. The fact that many directors are informed regarding company problems and have a genuine interest in its welfare makes them particularly useful as informal advisors. Consequently, an administrator in thinking about how he can get the most help from his board of directors should not overlook this type of assistance.

Effective organization for top administrative duties

Throughout this chapter a recurring theme has been the need for long-range, broad-gauge guidance of corporate affairs. We quickly concluded that stockholders, as such, could not provide such direction, and now find that the board of directors may be helpful but usually cannot be assigned full responsibility for this type of planning. Primary reliance then must be placed upon full-time company executives. It is not enough, however, to leave the topic at that point, because some thought must be given to who among the full-time executives will perform this function.

Top administration in Standard Oil Company (New Jersey). The importance of broad-gauge thinking is dramatically illustrated by the activities of the board of directors of Standard Oil Company (New Jersey). This board of directors is quite unusual in several respects. Its members are all full-time executives, but, what is more important, most of them have no operating responsibility and devote their entire energies to serving on the board. These men have been promoted from key operating posts in the company because of their ability to view

company problems with a broad perspective and the contribution their particular knowledge and experience will make to the top-group thinking. When they become directors they are relieved of operating duties.

The expense of this full-time board is substantial. Salaries of board members alone are approximately three-quarters of a million dollars per year, and other expenses incident to their activities would bring the total to well over a million dollars annually. Just what does such a board do? Is it merely a very exclusive, self-perpetuating club, or does it have important functions to perform?

This top administrative group must find the best answers to very perplexing questions, such as the following:

1. To what extent should investment be made in oil wells and pipe lines in the Persian Gulf area? This involves consideration of the world supply and demand for crude oil, and particularly the increase in the use of petroleum products for power and heating in Europe, relative transportation costs from different sources of supply, and the possibility of the fields being captured and destroyed by military action in the Eastern Hemisphere.
2. Should exploration and drilling for crude oil be increased in Venezuela and other South American countries in lieu of active expansion within the United States? In this connection the instability of the local governments in several of the South American countries must be appraised, as well as the possibility of increased local taxation.
3. Or, on the marketing side, should the company increase or decrease its ownership of filling stations? This involves questions of the control of appearance and service rendered by stations selling company products, importance of good will of independent distributors, effect of chain store taxation, and similar issues.
4. To what extent should filling stations be encouraged to sell automobile accessories, refreshments, or other merchandise? A few filling stations have taken advantage of the unusual opportunity for customer contact to sell electric fans, radios, and other household appliances.
5. To what extent should the company engage in research work on synthetic rubber, the production of liquid fuels from coal, and other processes that are either related to or might have a serious effect upon the petroleum industry?

These questions are merely suggestive of the variety of problems faced by the board of directors of the Standard Oil Company (New Jersey).

It is evident that questions such as these seriously affect the future prosperity of the company, and that they involve not only technical consideration but also (1) long-range forecasts, (2) social and political issues, and (3) consideration of over-all company resources and needs. The local operating executive—in Iran, in Venezuela, and in United States district sales offices—along with the geologists and the

engineers undoubtedly provide much of the information and opinions upon which the final decision will be based. Nevertheless, there is also a need for the broad perspective and integration that only someone in the position of the board of directors can provide.

Standard Oil Company (New Jersey) is a two-and-a-half-billion-dollar corporation, and if a board of directors that devotes its full time to top-management decisions substantially increases the wisdom with which these basic issues are handled, the expense of the board will be recovered many times over.

Smaller companies do not face questions of such diversity and magnitude, but they do have to make decisions that, for them, are just as important to their future success. With the increasing complexity and tempo of business activities, it is often necessary for even the smallest of companies to make its decisions in light of long-run social, economic, and political considerations. In other words, in every enterprise there is need for at least some of the same type of thinking that the full-time board of Standard Oil Company (New Jersey) provides for its operations.

Alternatives available to smaller companies. There is real danger that busy operating executives of companies will not provide the broad perspective that is needed. Since very few companies can afford a board of full-time directors, some other provision should be made. Among the possibilities are the following:

1. The company may have two top executives, a chairman of the board and a president, or a president and a general manager. The particular title is not important, as long as one of the men is sufficiently free from operating responsibilities to do the type of thinking just discussed and has the interest and ability. Incidentally, the chief executive who has reached retirement age may or may not qualify for this second position, so it is necessary to distinguish between a graceful device for shelving a grand old man and the provision for broad-gauge, top-management thinking.

2. A small company may be able to afford only part of the time of one of its executives for such work. For example, in one firm the vice-president carried a light load of operating duties so that he would have enough time to consider proposals for new products, effects of new government legislation on company activities, the use of a combined sales force with another company, and similar problems. Such an arrangement calls for a very versatile executive, but at least the impor-

tance of this type of work is recognized and some provision made for it in the allocation of total duties among the executives.

3. The chief executive may retain responsibility for long-range planning, but rely heavily on a staff assistant to assemble and analyze information. Such a "team" arrangement combines the full time of a lower-paid staff man with the experience and prestige of the chief executive. As with any team, its effectiveness depends upon the combined qualities of the men involved and how well they work together.

Still other arrangements may be better suited to the particular situation in a given company. But, somehow, someway, provision should be made for the long-range, broad-gauge planning that is essential to the continued success of every company.

Provision for Representation of Interest Groups

Some people consider that the key function of a board of directors is to act as trustee to protect the interest of stockholders. This is an unsatisfactory concept from the point of view of the administrator because (1) the board of directors has a much more important function than merely serving as a watchdog, as has been pointed out in the first part of this chapter, and (2) there are important interest groups in addition to stockholders who deserve some consideration.

Enlightened managers today recognize that they have an obligation to customers, employees, material suppliers, and the community at large, as well as to investors. Satisfactory relations with all these groups are essential if the enterprise is to justify its existence. The increased strength of labor unions and the demand of a few labor leaders for increased participation in business management has made the question of the relation of organized labor to management a subject of much current discussion. The problem, however, is larger than mere management and union prerogatives, and in this brief discussion we shall attempt a broader and more basic approach to the general problem. The following points will be considered:

1. What interest groups warrant special consideration?
2. What types of protection and participation have been provided for such groups in the past?
3. What general guides for relations with interest groups can be suggested?

Interest groups to be considered

R. A. Gordon has aptly defined an interest group as, "One whose economic welfare depends directly, and to an important degree, on

the activities of a given firm." [6] Thus, for the large enterprise, there might be the following interest groups:

Owners—both common and preferred stockholders
Creditors—commercial bankers, trade creditors, and bondholders
Suppliers of raw materials, parts, or finished goods for resale
Customers
Employees
Competitors.

The interest of such groups in a particular company will, of course, depend upon the importance of the relationship. A customer who occasionally buys products of the company but has alternative sources readily available will have only minor interest, whereas the customer whose entire business would be disrupted if the company discontinued shipping him goods has a major interest. Similarly, the interest of suppliers depends on whether the company in question takes a small part of its output or a major part.

Full-time employees will almost always have a major interest because their employment is such an important part of their lives and is a source of livelihood. Bankers who merely maintain a checking account for the company will have an attitude quite different from the attitude of those who extend substantial loans. The interest of competitors depends upon whether the company is a dominant influence in the market. Naturally, the more difficult administrative problems usually arise with those groups that have a major interest in company operations.

This matter of "interest" is usually a two-way relationship. While the outside group may be vitally concerned with the company, so too is the company interested in the continued flow of materials, availability of capital, the services of employees, and outlets for its goods and services. Even though at a given time the company may be in the dominant position, it should never forget that at some future date the tables may be turned. The continued cooperation of these interest groups is essential for the company's very existence, and consequently it is highly important that mutually satisfactory relationships be established.[7]

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[6] *Business Leadership in the Large Corporation*, Brookings Institution, 1945, page 147. Much of the following analysis is based on the excellent treatment by Mr. Gordon in this book.

[7] The sociologists point out in connection with authority that an individual or enterprise can exercise authority only so long as those affected permit it to do so. In this sense, the authority comes from the bottom up, from the employee, from the creditors, from material suppliers, and so forth. It is a wise man who cultivates good

Examples of relations with interest groups

Bankers. A commercial banker who has made a loan to a company takes several steps to protect his interests. A formal written agreement is signed stipulating the date of maturity and interest rate, and, if the loan is an unusually large amount for the size of the company or for a long period, it may also provide certain guarantees that become effective in event of nonpayment. Actually, the banker hopes never to have to use these guarantees, and to this end he requests information on operations of the company both before and during the period of the loan. Even more important than any of these steps is the discussion the banker has with the company executive regarding the uses to which the money will be put and the plans for repayment. He often advises the company as to sound financial policy, although rarely are such recommendations incorporated into the formal loan agreement.

Suppliers. Sometimes a supplier is so concerned about how his products will be used that he agrees to sell only if the buyer will follow certain procedures. For example, when the duPont Company first distributed nylon for use in women's hosiery it sold only to the well-established companies, and even then stipulated the type of product that was to be made, machinery to be used, and the methods to be followed. The hosiery companies had to agree to follow the company advice in these respects in order to obtain what had been heralded as the new wonder fibre. The company believed such steps were necessary in order to make sure that poorly made hosiery did not reach the consumer market and injure the reputation of nylon.

Several of the automobile companies exercise much more stringent controls over the activities of their dealers in order to make sure that customer service is satisfactory and that the dealers are efficient enough to make a profit on the margins provided. Some of these regulations are incorporated in written agreements, but most of them are provided in the form of "advice."

Customers. If a customer takes a large part of the company's output and also is concerned about an assured supply, he may exercise considerable influence over the activities of the company. For many years

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relationships with these sources of authority, even though at a given moment they may be impotent or passive.

The public administrator is perhaps most keenly aware of this need to cultivate authority, because of the frequent shift in the political climate and the influence of different groups. Business administrators can well take an equally humble view toward their managerial prerogatives.

the United States Government placed its own inspectors in the plants of companies from which it made large purchases, and the procedure became even more common during World War II when substantial subcontracts were let. Usually the formal agreement gives the inspector no more power than to observe operations and to accept or reject the finished product. Actually, his advice often covers production methods that will insure quality, and, in the case of subcontracts, sometimes includes advice and assistance in the general operation of the business.

One of the large mail order houses has gone even further in its relations with important suppliers. It insists on being given full operating information, including monthly cost and profit and loss statements. While such information puts the mail order house in a position to insist on lower prices if the supplier is making a high profit margin, the primary purpose of this flow of information is to make sure that nothing is going wrong within the company that might interrupt the flow of merchandise. Such an arrangement obviously calls for a high degree of mutual confidence and cooperation.

Employees. Employees have an even more vital stake in successful operations of the company than do suppliers, customers, or bankers. Satisfactory procedures for the protection of this interest have not yet been developed, and in many companies the subject is one of heated controversy. There are a limited number of examples in which employee unions have insisted on managerial changes in order to safeguard the jobs of employees. The classic example is the measures taken by the International Ladies Garment Workers Union to eliminate sweatshops and cutthroat competition in the needle trades. Through the regulation of subcontracting, hiring, output standards, and a number of other managerial practices, the union brought some sort of order into a chaotic industry. When firms are in financial difficulties that threaten stability of employment, the union is prepared to offer advice on even a wider range of managerial practices.

Admittedly this industry is very much the exception. There are, however, a few other examples, such as the Hosiery Workers Union's insistence that Philadelphia manufacturers set aside a certain part of their income for the purchase of modern equipment, in which the unions have gone beyond the traditional "wages, hours, and working conditions" in an effort to safeguard their jobs.

It has been suggested that employees be represented on the board of directors. Limited experience with this arrangement has not been

generally satisfactory. Usually the types of problems with which the boards of directors dealt were outside the competence and the interest of the employee representative. In light of the earlier discussion of boards of directors, it is doubtful whether this particular procedure holds much promise.

A detailed discussion of the relationships of union officials to company management is certainly outside the scope of this chapter. Nevertheless, it is appropriate to point out a number of reasons why satisfactory relationships may be more difficult to develop here than between companies and financial or commercial interests.

1. The democratic structure of the unions themselves make some labor leaders hesitate to "participate" in management decisions. They feel they can maintain the support of their members better if they remain free to criticize the actions of management.
2. Unions are often interested in decisions made at various levels in the executive hierarchy. Consequently, any single point of contact is likely to prove inadequate.
3. Union emphasis on conflict of interest, union organization tactics and bargaining traditions, and the current lack of competence of many labor leaders to deal with general management problems make consultative relationships—often so effective for other interest groups—hard to achieve.

The foregoing examples of an outside interest group influencing the management of a company are not necessarily typical. Cases of a high degree of participation have been used because they are more suggestive of possible relationships. In the typical company, relationships with interest groups can be cut off far short of some of the controls that have been mentioned.

Guides for relations with interest groups

Generalizations on any aspect of administration are dangerous because of the ever-present need to adapt them to local circumstances. This is even more true in connection with provisions for interest group representation because it has received comparatively little systematic analysis. For practical purposes, however, it is desirable to draw at least general conclusions.

On the negative side, the placing of representatives of interest groups on the board of directors does not appear to be an adequate solution. Such representatives would presumably be primarily con-

cerned with the interests of their constituent—commercial banker, large customer, labor union, et cetera—and thus would have divided loyalty so far as the over-all success of the company was concerned. Moreover, directors serving primarily as "watchdogs" would contribute little to, and might even detract from, the role of a board of directors described earlier in this chapter.

The following measures will usually contribute to good relations with interest groups:

1. *Cultivate a good reputation with each interest group.* This requires, first of all, acceptable conduct and, second, a well-conceived plan for informing the interest group of this conduct and the reasons therefor. In other words, develop a good public relations program.[8]

2. *Confine formal agreements regarding conditions of joint endeavor to a minimum of essentials.* Some basic understandings and protection may have to be stated in writing, but there are great advantages in keeping the relationship as flexible as possible, particularly in regard to detailed activities.

One of the primary purposes of such a formal agreement is to assure that the relationship will continue uninterrupted at least for the period of the agreement. Once these basic conditions of cooperation have been agreed upon, no interest group should be given a veto power on actions of management or right of withdrawal at every turn. In other words, there should be a unity of command within the enterprise.

The formal agreement should typically be subject to periodic renegotiation. Incidentally, since the stockholders are denied this right of renegotiation (their contribution of capital cannot be withdrawn), it is appropriate that they be asked annually for a vote of confidence with respect to existing management.

3. *Conduct day-by-day relations on the basis of mutual good will and cooperation.* Satisfactory relationships with almost any interest group—bankers, vendors, customers, employees, et cetera—require considerable give and take, and possibly even the submitting of disagreements to an arbitrator. An atmosphere of fair play and mutual respect should pervade all these dealings.

4. *Consult a major interest group on contemplated actions that will affect it.* This does not involve sacrificing the right to make an independent decision, but any group whose interests are vitally con-

[8] In addition to the above, most public relations programs include activities directed toward influencing governmental legislation and regulation.

cerned would like at least the opportunity to consider the proposal and suggest modifications. In this connection it is interesting to note that for centuries the Catholic Church has made use of compulsory consultation with independently appointed advisors; the line official need not take the advice, and there is strong tradition for obedience of whatever decision the line official makes, but consult he must. Also, government agencies have found that consultation with affected parties before issuing a regulation sometimes develops suggestions for improvements; usually it increases the acceptability of the regulation.

These four general guides may not fit all situations, but their observance will go a long way toward building good relationships between the company and most of its interest groups.

Summary

Over-all direction of a company involves two basic organizational issues: (1) what provisions should be made to secure objective, long-range, broad-gauge guidance of company affairs; and (2) how outside interest groups should be related to the stream of administration.

A board of directors composed of a few company executives and several "outsiders" can serve a useful function by asking discerning questions, providing constructive counsel, confirming major decisions of management, and selecting key executives. Individual directors can often provide helpful counsel informally.

By and large, however, the initiative and dynamic leadership must come from full-time executives. To be sure that adequate attention is given to this broad-gauge planning, special provision in the executive organization is desirable.

In addition to stockholders and employees, interest groups that often deserve special consideration in directing the affairs of a company are customers, material suppliers, lenders of capital, and the community at large. There is no simple way to provide adequate representation for all such groups. Certainly, providing for "watch-dogs" on the board of directors does not appear to be the single answer.

As a general rule, company management should: cultivate a good reputation with each interest group, confine formal agreements with them to a minimum of essentials, conduct day-by-day relations on a basis of mutual good will and give-and-take, and consult each group on contemplated actions that will affect it.

The line of analysis in this chapter challenges the role traditionally assigned to a board of directors. Instead of a representative group of owners guiding the destinies of the enterprise, the board has been treated as a semiautonomous body that, if properly constituted, can give valuable aid to the full-time administrators. And, on the other hand, stockholder representation has been viewed as only one of the interest representation problems with which the administrator must deal. Successful operation of the business requires continuing cooperation from all interest groups, and the administrator must make such concessions in the independence of his actions as well as in the "division of the spoils" as are necessary to win this cooperation. Fortunately, the several interest groups typically have a mutual desire that the enterprise prosper and grant the administrator considerable leeway in arranging the joint venture. The social implications of this concept of the board of directors are beyond the scope of this book; it is merely contended here that this concept is a more realistic and practical view for a business administrator to take.

The discussion in this chapter has been in terms of the business enterprise. This was done in an effort to keep the general line of development free from exceptions and qualifications that would have been necessary for government, military, or charitable concerns. Nevertheless, administrators in these other fields will probably find this discussion of business problems at least provocative, if not directly applicable.

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Chapter 15

SPAN OF SUPERVISION

As any enterprise increases in size, the question of how many employees can be adequately supervised by a single executive arises. This question of proper span of supervision presents itself time and again at all levels in the executive hierarchy; no administrative organization can be created without attention to it.

This is no new problem. The issue of a leader attempting to direct too many people was serious enough in the early history of the Israelites to be recorded in the Bible. In Exodus 18, 13-26 is the following account of how Moses found it necessary to set up an administrative organization:

> Moses sat to judge the people; and the people stood about Moses from the morning unto the evening. And when Moses' father-in-law saw all that he did . . . he said unto him: "The thing that thou doest is not good. Thou wilt surely wear away, both thou and this people with thee; for the thing is too heavy for thee—thou art not able to perform it thyself alone.
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> "Hearken now unto my voice . . . Be thou for the people Godward, and bring thou the causes unto God. [Then] thou shalt teach [the people] the statutes and the laws, and shalt show them the way wherein they must walk, and the work that they must do.
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> "Moreover thou shalt provide out of all the people able men, such as fear God, men of truth, hating unjust gain; and place such over them, to be rulers of thousands, rulers of hundreds, rulers of fifties, and rulers of tens; and let them judge the people at all seasons. And it shall be that every great matter they shall bring unto thee, but every small matter they shall judge themselves. So shall it be easier for thyself, and they shall bear the burden with thee. If thou shalt do this thing . . . then thou shalt be able to endure, and all this people shall go to their place in peace."
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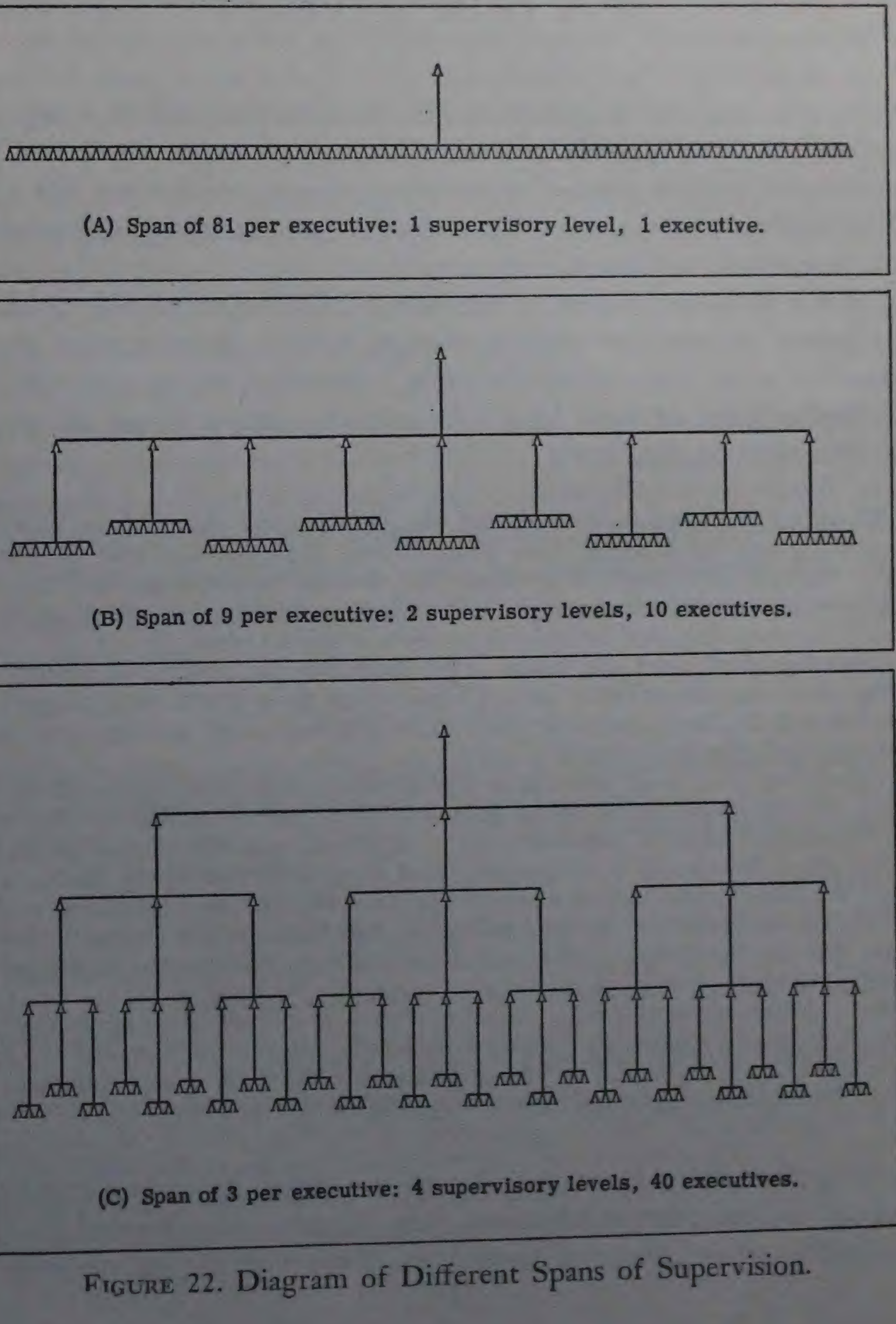
> So . . . Moses chose able men out of all Israel, and made them heads over the people, rulers of thousands, rulers of hundreds, rulers of fifties, and rulers of tens. And they judged the people at all seasons; the hard causes they brought unto Moses, but every small matter they judged themselves.

Whenever there are expansions to the plant, new sales territories opened up, increases in company-provided services, or other changes leading to the addition of employees, there will be the question of

whether some present executive can take on the supervision of the new employees. If it is decided that a new supervisor should be added, there is still a question of what executive has the time and capacity to direct his activities. A government bureau, professional baseball club, and army all face the same type of question: how many men



(A) Span of 81 per executive: 1 supervisory level, 1 executive.

(B) Span of 9 per executive: 2 supervisory levels, 10 executives.

(C) Span of 3 per executive: 4 supervisory levels, 40 executives.

FIGURE 22. Diagram of Different Spans of Supervision.

can the treasurer, the director of maintenance, the artillery officer, and each of the other executives supervise effectively and still perform the other duties he has been assigned?

When more than a handful of men are involved, the question of span of supervision really poses a dilemma. If it is decided that a small span of supervision is desirable, then the number of executives and probably the number of levels of supervision between the senior executive and the operating employee will have to be increased. On the other hand, if it is desired to keep the number of strata or levels of executives small, there will have to be an offsetting increase somewhere in the number of individuals reporting to a supervisor.

This dilemma is illustrated in Figure 22, which shows eighty-one employees along each base line. Theoretically, one executive can supervise all these workers, but the average time he can spend with each would be so small that he obviously could not give effective direction or keep track of what each was doing. If the chief executive decided that he could keep track of nine assistants, and that each of these could supervise nine workers, then we would have the situation shown in the middle of the diagram, with a total of ten executives and two supervisory levels. Perhaps nine would be found to be too wide a span, and the number of immediate subordinates to each executive would be reduced to three. This narrow span would require four supervisory levels, with a total of forty executives. Clearly, the optimum span lies somewhere between eighty-one and three, but in making the choice it should always be remembered that as the span of supervision is reduced the number of executives and, frequently, the levels of supervision are correspondingly increased.

Of course, in practice there is no need to have a constant span for all executives. Some executives may be able to direct the work of only three or four immediate subordinates, whereas others can take care of ten or twelve. Nevertheless, the underlying dilemma between the span and supervisory overhead will always be present.

In dealing with questions of span of supervision and the dilemma it presents, the administrator should consider the following:

1. Factors limiting the effective span of supervision
2. Objections to increasing the number of executives and levels of supervision
3. Guides for selecting the optimum span for each executive
4. Methods for relieving an overburdened executive when delegation to intermediate subordinates is impractical.

Factors Limiting the Effective Span of Supervision

Time and energy

The limits on the number of people a man can effectively supervise arise fundamentally from the physiological and mental capacity of individuals. The number of hours a man can work per day or per week are circumscribed. What constitutes a full day's work is, to be sure, strongly influenced by habit and attitude, but even under the stimulus of war conditions it was found that the typical worker did not increase his total output by working for sustained periods of over sixty hours per week, and in some occupations maximum output is reached in a shorter period.

Even if the executive is willing and able to devote long hours to his job, there typically are definite limits on his nervous energy. After a number of hours of concentrated effort his judgment is not so sharp, his patience gives out sooner, he evades tough issues, and accepts sloppy work in the hope that it will "get by." There clearly are limits on the amount of work any man can do well within a given period of time.

Mental capacity and personal adaptability

Closely associated with the confines on a man's time and energy are the limits on his mental capacity and personal adaptability. Anyone who has tried to supervise twenty or thirty people knows that even the routine, day-to-day relationships raise a variety of difficulties. Joe likes lots of fresh air, the bookkeeper wants the windows closed; Sally turns up with a new engagement ring, and the efficiency of the female employees falls about 10 per cent; Pete, who has been up all night with a sick wife, arrives at the office with a chip on his shoulder, and when Bob accidentally knocks his papers off the desk Pete tells him what he thinks of him in picturesque language; a rush order arrives and three or four people have to be temporarily withdrawn from their regular duties, and this upsets the flow of work to other people; and so it goes.

The ability of a supervisor to view such things in an understanding fashion diminishes as the number of problems increases. With only a half a dozen subordinates, he can be firm with one subordinate, encouraging to another, and give a pep talk to a third, depending upon the individual and a variety of environmental factors. But with twenty

or thirty subordinates, most supervisors are forced to adopt a limited supervisory procedure and hope that it is effective in all cases. The task of understanding and adjusting to an increasing number of specific situations presses hard upon the capacity of the supervisor, and he inevitably begins to give them superficial and inadequate attention.

Individual executives vary, of course, in the amount of time and energy they can and will devote to their jobs. They also differ in their capacity to adapt to a variety of situations. For some, supervisory responsibility imposes strong moral obligations and creates considerable nervous strain when all is not going well; others shoulder such responsibilities and are content to rely upon intuition and good luck to get over the rough spots. Because of these individual differences in the basic limits on span of supervision, we cannot expect to find a fixed formula that will apply in all situations.

Complex supervisory situation

Good supervision requires current information, thought, and personal attention to the subordinates and activities being directed. Such knowledge and attention is restricted not only by the factors already discussed, but also by the supervisory situation itself. For example, if the people and activities being directed are widely spread over a large territory, the task of getting information regarding local conditions will be correspondingly increased. Likewise, as the variety of activities becomes greater, the time and energy needed to keep informed about what is going on will consume a higher proportion of the executive's time.

Also as V. A. Graicunas has observed, the total number of individuals employed is important, because when more people are added the possible interrelationships between individuals increases in geometric proportion.[1]

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[1] L. Gulick and L. Urwick, eds., *Papers on the Science of Administration*, Institute of Public Administration, 1937, pages 181-188. This geometric increase in relationships is one of the reasons why the span of supervision generally should become smaller in the higher echelons of an organization. On this point it is significant that (1) as an enterprise grows in size the employees rarely have all the relationships with each other that are theoretically possible (any more than a new telephone subscriber makes calls to all the people theoretically within his reach); and (2) relationships that take time of an executive are not only those within the division he supervises. Both formal and informal relationships between subordinates do indeed influence the optimum span of supervision, but they vary so much from one situation to the next that, in actual practice, it is necessary to investigate the relationships of concern to the executive, rather than depend upon the mere number of employees in his division.

As the supervisory situation gets more complex an executive reaches the physical limits on his time and energy, and he extends his mental capacity and personal adaptability to their limits. These are compelling reasons why an executive cannot give adequate attention to a larger and larger number of immediate subordinates.

Objections to Increasing the Number of Executives and Levels of Supervision

The factors just discussed indicate the desirability of keeping spans of supervision small. Why not, then, give each executive only a few immediate subordinates? The difficulty in doing so is that it increases the number of executives and, more serious, it often increases supervisory levels in the organization. This, too, has its disadvantages. It is important that we understand these objections if we are to make wise decisions regarding the span of supervision.

Inaccuracy of communication

One of the objections to increasing the levels of supervision is that it tends to make communication up and down the executive pyramid more difficult and inaccurate.

This was illustrated by the experience of a utility company that had just adopted a new form to record information from people who wished to buy appliances on the time-payment plan. During the first few weeks credit interviewers, who, incidentally, had not participated in the preparation of the form, had difficulty in using it. They frequently asked their supervisor where to put down certain types of information, and complained that other questions were hard to get answered without irritating the customer. The supervisor explained the use of the form and helped the men devise questions to bring out obscure information.

Later, when his manager asked how the new form was going, the supervisor replied, "The boys are having a little difficulty getting used to it, but it is going to give us some excellent information. I think it will be a great improvement." A short time afterward the vice-president asked this manager how the new form was working out, and he replied, "Just fine. It's really a big improvement." Thus, with only two intermediaries the vice-president received a report which was almost diametrically opposed to the views of the people who were using the new form.

Let anyone who thinks that human beings are good conductors of ideas consider the difficulty of getting an accurate report of an accident. Even the eyewitnesses do not agree; by the time each of them has told somebody, who has told somebody else, the facts of the case are obscure indeed. The same difficulty is present in business. An executive may have three or four men in his office to discuss a particular plan; but by the time each of them tells his subordinates and they tell their subordinates, there is likely to be a substantial difference in the instructions received by the men on the firing line. The more people through whom the ideas must pass, the greater danger there is of serious distortion.

There are, of course, some methods for improving this communication. Reports containing objective data may be prepared and circulated; an executive may issue written instructions that are passed down through several strata of the organization, so that all the people concerned at least see the same words; staff men may be used to obtain information and to interpret instructions of the chief executive. These devices are cumbersome and, at best, only supplement the information that should flow up and down the channel of command.

On the other hand, there probably will be some intentional twisting of ideas. An executive may fail to report trouble if he wants to create a good impression of his administration, or he may magnify difficulties if he is seeking new equipment or some other change. Similarly, in passing information down the line, he will hold, interpret, or amplify ideas in a way that he believes will secure the results he desires. Usually there are no clear falsehoods, and the executive probably believes he is acting in the best interest of the enterprise; but as was seen in the case of the new form used by the utility company, a shift in emphasis by two or three successive individuals can seriously modify the accuracy of communication.

Inflexibility

Communication through several layers of supervision is not only inaccurate, but it also takes time. When a change in operations is under consideration, it is desirable that executives at all levels contribute information and advice in the diagnosis of difficulties and the development of the new plan. When several layers of supervision are involved this may require some little time. For instance, the production vice-president may be tied up for several days in the negotiation

of a new labor contract. When he is free, the production manager may be away for two days inspecting some new equipment. By the time he gets back and does see the production vice-president, the plant superintendent is busy each afternoon with a supervisory training program. All of which means that it may be two or three weeks before the desired information is assembled.

Similarly, delays may be encountered in explaining and selling the decision once it has been made. If a problem has an A-1 priority it may, of course, be handled with much more dispatch, but this solution is not available for all problems because it causes too much disruption to other activities. The more levels of supervision involved, the slower is likely to be the action.

In contrast, the company with, say, only two levels of supervision can move much more quickly. The senior executive, in one or two conferences with his supervisors, has most of the information available, and the organization structure permits action to be taken quickly. Of course, insofar as authority to make decisions is decentralized, fewer supervisory levels will be involved in any particular operating problem, and even a large company may approach the flexibility of a small enterprise. However, where decentralization is not practical, additional strata of executives tends to slow up decision-making and add to the inflexibility of a large concern.

Danger of "layering"

Another communication difficulty that is accentuated by added levels of supervision is that of "layering." In its narrow sense, "layering" refers to an insistence that communication flow exclusively up and down the channels of command. This going "through the proper channels" often results in a communication passing through several layers of supervision in order to get from one part of the enterprise to another. The difficulty is illustrated in Figure 23 where a request by worker D of information from worker G would have to flow through three supervisory levels and five supervisors, and the reply would follow a similar circuitous path.

This is no hypothetical problem. In the early days of the New Deal, for example, high executives in the government found themselves so poorly informed of what was going on that President Roosevelt issued an instruction that "the interrelationships of departments and agencies must be conducted through the heads of departments." Fortunately,

most government officials did not interpret this to bar the flow of information, but ten years later, during World War II, "layering" among army and navy officers dealing with the War Production

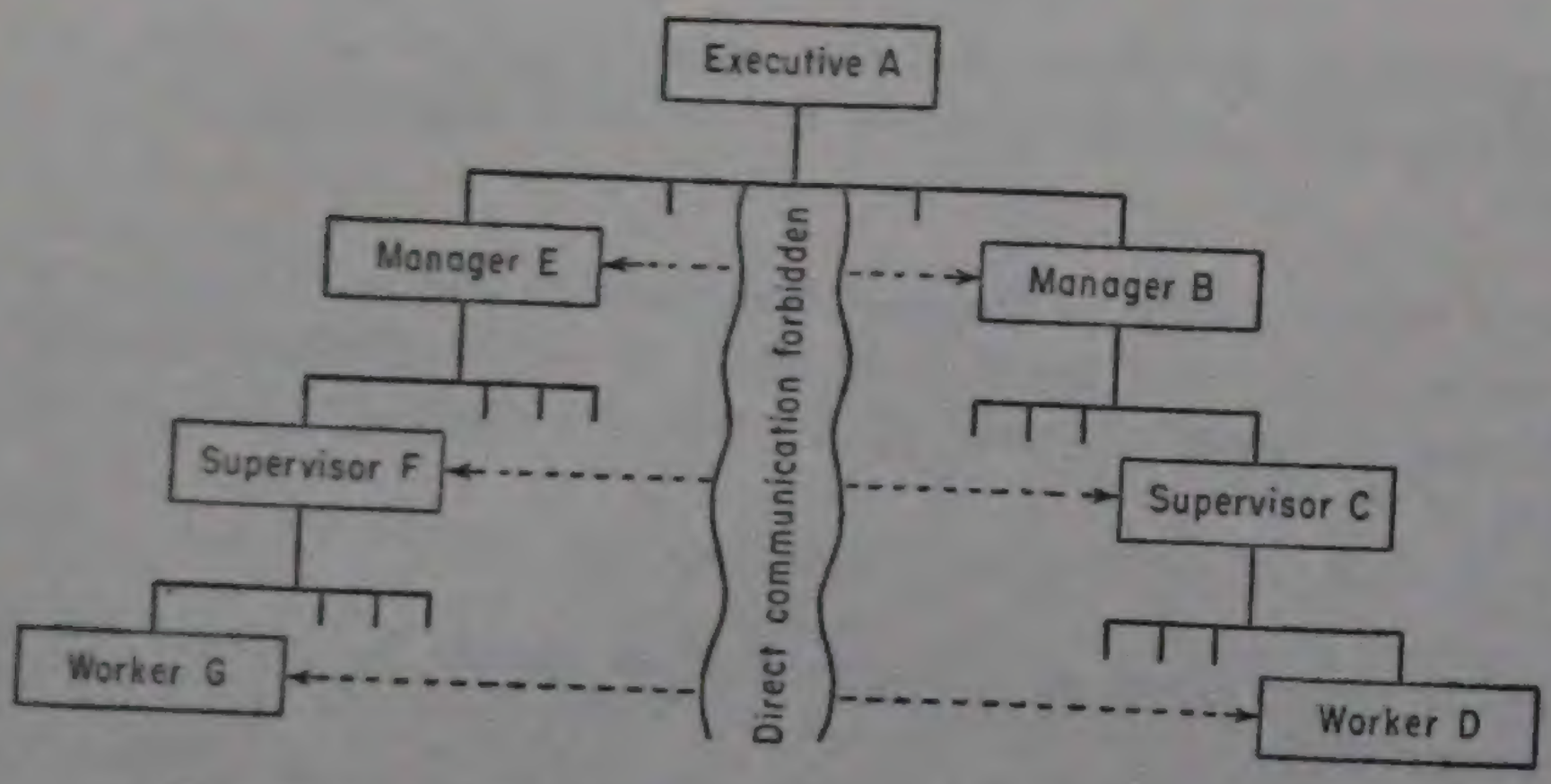

FIGURE 23. Diagram Illustrating "Layering."

Board so seriously interfered with the flow of information that the President explicitly revoked his earlier instruction; and the Under-secretaries of War and of the Navy and the Chairman of the War Production Board issued specific directions that communications of appropriate information were to flow directly to the people concerned. Here we find the highest officials of our country wrestling with the problem of "layering."

Undesirable though it usually is, "layering" must not be condemned too quickly. The executive who is embarrassed to find that some of his colleagues have received information from one of his subordinates before he himself finds it out or, more serious, that subordinate employees have proceeded to take action on the basis of facts the executive knew nothing about, is likely to insist on "layering" in order to keep things under control.

A more practical solution is that adopted by the RCA Victor Division. As indicated in Figure 24, RCA decided that contacts between units should be carried out in the most direct way, but at the same time specified that each member of the organization should keep his supervisor fully informed regarding any problems arising out of such contacts.

The danger of "layering" enters into a consideration of the span of control, because it is more likely to be serious when there are narrow spans and many levels of supervision.

RCA Victor

Channels of Contact

The organization structure and the organization chart define lines of responsibility and authority; but do not indicate channels of contact.

* * * *

The RCA Victor Division Organization permits and requires the exercise of common sense and good judgment, at all organizational levels, in determining the best channels of contact necessary for the expeditious handling of the work.

* * * *

Contacts between units of the organization should be carried out in the most direct way.

* * * *

In making such contacts, however, it is the duty of each member of the organization to keep his senior informed on:

1. Any matters on which his senior may be held accountable by those senior to him.

2. Any matters in disagreement or likely to cause controversy within or between any units of the Division.

3. Matters requiring advice by the senior or his coordination with other divisional units.

4. Any matters involving recommendations for changes in, or variance from, established divisional policies.

FIGURE 24. One Way of Avoiding "Layering."

Expense of supervision

An increase in the number of executives, which inevitably results from reducing the span of supervision, is expensive. Figure 22, on page 258, shows how the number of executives and levels of supervision increases as the span of supervision is lowered, and, of course, each time an executive is added there is a corresponding addition for his salary and often for office space and secretarial and other assistants.

Professor R. C. Davis has made a detailed estimate of the effect of span of supervision on salary expense. Starting with a plant of twelve thousand operators, he assumed in one case that the average span for first-line supervisors will be ten, and for other executives it will be four. Then, as the second case, using the same plant, he assumed that the first-line supervisors will have an average span of twenty

and the higher executives a span of six. The resulting number of executives required would be approximately as follows:

	Case 1	*Case 2*
Primary operative employees	12,000	12,000
Assistant foremen, group leaders, etc.	1,200	600
Foremen or department heads	300	100
General foremen	75	17
Superintendents	19	3
Plant managers	5	0
Production manager	1	1
Total executives	1,601	722

It will be noted that Case 1 requires an executive force 120 per cent larger than for Case 2. Professor Davis also estimates that supervisory overhead cost will be 26.6 per cent of direct labor in Case 1, and only 11.4 per cent in Case 2. Although these are hypothetical figures, the assumptions upon which each case is based are well within the range of present-day practice.[2]

Supervisory expense, like any other expense, may be fully justified in terms of the results achieved. Nevertheless, when contemplating a reduction in the span of control the additional expense is certainly one of the items to include in the reckoning.

Effect on morale

Additional levels of supervision generally have a bad effect on executive morale. The most immediate effect of interposing a supervisory level is a reduction in the direct personal influence of the senior executive. When working through intermediaries, a man cannot make his ideas and aspirations, his determination as vivid as is possible in face-to-face contacts. Executives and operators who are denied this direct contact with the personality of the "big boss" inevitably feel a remoteness and a lowering in the value attached to their efforts.

Closely associated with the loss of personal contact is what Gen. Otto Nelson has aptly called "pride of place." In his study of military organization he states:

> Both senior and junior officers are generally impatient at delays incident to going through channels. Juniors whenever possible like to deal directly with the highest authority. Officers heading organizational entities resent being placed far down the chain of command. In all sorts of ways "pride of place"

[2] *The Influence of the Unit of Supervision and the Span of Executive Control on the Economy of Line Organization Structure*, Bureau of Business Research, Ohio State University, 1941.

exerts a dynamic force and it is a rare organizational entity in the War Department and the Army, the chief of which if given any opportunity, does not try to climb higher on the organizational ladder. . . .[3]

Moreover, a narrow span of supervision and the resulting increase in levels of supervision permit, perhaps encourage, centralization of decision-making. This centralization, the sociologists and social psychologists insist, leads to poor morale. J. C. Worthy, reporting on twelve years' study of several hundred organizational units, states, "in organizations characterized by many levels of supervision and elaborate systems of control, the individual has little opportunity to develop the capacities of self-reliance and initiative. . . ." [4]

B. G. Gardner makes a similar point: "The mathematical approach of 'how many men' has led us into the development of kinds of structures that can only breed frustration and mediocrity. The good men get out or are ground down to normal size." [5]

These influences of a narrow span of supervision on morale should be regarded as a tendency, an ever-present danger, but not as a fixed relationship. For example, narrow span of supervision does not always mean a high degree of centralization and functionalization. Employees who report to an executive so overburdened that they get scant advice and assistance from him may welcome an intermediary who has a regular place at the council table and can secure the attention of the senior executive when it is necessary. Key executives can and should meet with employees several layers below them for discussion, even though official instructions come down the channel of command; in fact, one of the chief reasons why the army insists that high commanding officers have only a few operating units below them is to make time for field trips and personal observation of operating conditions. Nevertheless, an adverse reaction to additional levels of supervision is common enough to warrant careful attention when dealing with the span of supervision issue.

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[3] *National Security and the General Staff*, Infantry Journal Press, 1946, page 579. General Nelson goes on to point out the dangers of conceding too much to personal desires for status. " 'Pride of place' has usually won out in time of peace, resulting in far more individuals reporting to one man than he could control. Where there are ambitious subordinates, soft-hearted commanders, and the compliance characteristic of peacetime, 'pride of place' flourishes. The awakening always comes but usually not until war or other emergency threatens. The serious incidents in the form of grave errors, neglects, or delays forcibly remind the commanders of the limitations imposed upon them by 'span of control.' "

[4] "Organization Structure and Employee Morale," *American Sociological Review*, April, 1950, page 178.

[5] *Conserving and Developing our Human Resources*, American Management Association, Personnel Series, No. 127, page 11.

Guides for Selecting the Optimum Span for Each Executive

The preceding discussion of the pros and cons of a narrow, or wide, span of supervision develops the nature of the problem but unfortunately gives no single answer or formula. In fact, the analysis indicates clearly that what may be an effective span for one executive may be either too large or too small for another.

Empirical studies suggest that executives in higher echelons should have a span of three to seven operating subordinates, whereas the optimum range for first-line supervisors of routine activities is usually from fifteen to twenty employees. Even these limits permit a variation of as much as 100 per cent in the number of executives required, and there are plenty of examples of successful administrators who had a span of supervision outside these rule-of-thumb limits. Consequently, choice of a practical span of supervision, like most other aspects of organization, requires personal judgment.

There are a number of points that so often influence the wise choice of the number of immediate subordinates for an executive that the skillful organizer will consider them each time he makes a decision on this issue. These guides to the optimum span for each executive are:

1. Variety and importance of activities supervised
2. Other duties of the executive
3. Stability of operations
4. Capacity of subordinates and degree of delegation
5. Relative importance of supervisory payroll
6. Practicality of relieving an extended span of supervision.

Variety and importance of activities supervised

The number of people an executive should try to supervise is strongly influenced by the activities they perform. Consider, for example, the contrast in supervisory work in the two following situations. In the first example, thirty-five clerks are employed by a department store to verify and sort the sales slips for charge account customers. Thousands of slips pass through this section daily, and all that is required is to check the multiplication, addition, and computation of sales tax, and then to sort the slips into batches for entry into the accounting records. There are quite a variety of transactions the employees must understand, but fundamentally the work is highly routinized. There is a supervisor and an assistant supervisor, and these two men are able to do a satisfactory job of supervising the section.

The second example is that of a general manager who arrived at his

office one morning to find the personnel director waiting for him. A jurisdictional issue had arisen between the electricians union and the carpenters union over who should do certain work on a new elevator that was being installed. The argument was bitter and both unions insisted that the company take a position in the matter; to do so might result in a strike of maintenance men and perhaps other employees, which would necessitate shutting down the entire plant. Before this discussion was completed, the sales promotion manager came bursting in, all bubbling over with enthusiasm for a new plan he had developed when he lay awake the night before. It involved special packaging and a tie-in with radio advertising. It was a wow! (Just like the plan he had two weeks before.)

In the meantime the controller was waiting to discuss a possible change in account classification. A recent tax ruling indicated that the company might reduce its tax liability by a change in inventory valuation procedure. The saving was not certain, however, and the change in procedure would upset comparisons of that year's results with those of the previous years. Consideration of this subject had to be brought to a close because the general manager had an appointment with an important customer of the company; and so the day went.

Clearly, if the general manager in the preceding case attempted to supervise seventeen or eighteen subordinates, as do the men in charge of verifying sales slips, his supervision would be quite inadequate and he would probably develop stomach ulcers in the process. The variety and the importance of the activities he supervises demand much more time and energy than does the routine work in the accounting section. In applying this concept generally, variety may refer to differences in location or any other aspect of the activity that calls for the expenditure of additional time and effort in supervision.

Other duties of the executive

Executives have several duties in addition to supervising their immediate subordinates, and the amount of time they are expected to spend on these other duties will affect the number of people they can supervise.

The nature of this problem is indicated in Figure 25. Here we note that a president who is expected to spend at least a third of his time on top administrative planning, another third on more specific planning and control, and at least 10 per cent representing the company at Congressional hearings, public gatherings, and other places, has

only 20 per cent of his time left for the immediate supervision of key operating executives. A foreman, by way of contrast, may spend approximately a quarter of his time making up special orders, filling in reports, and in other activities that he might delegate, but the remaining 75 per cent is available for the directing and supervising of his immediate subordinates. This immediately suggests one of the reasons why it is likely the foreman can supervise more men than the top executive.

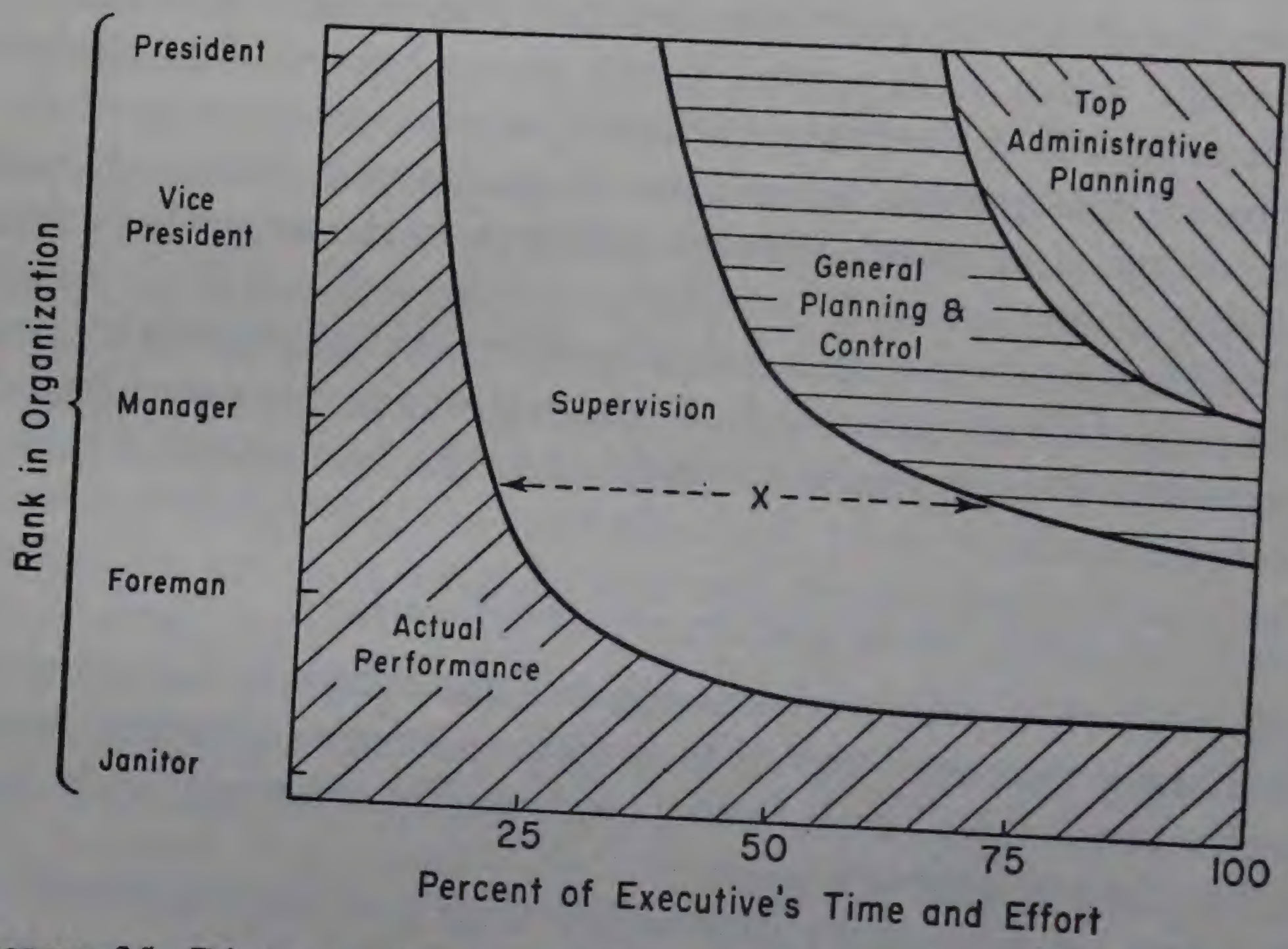

FIGURE 25. Diagram Illustrating Varying Proportions of Time Spent on Different Executive Duties. The optimum number of immediate subordinates depends partly on the time devoted to supervision—represented on the diagram by horizontal distance "X."

The diagram is merely illustrative, and the time available for supervision must be investigated in each instance. For example, if the sales vice-president is expected to spend half of his time selling goods to large customers, obviously his span of supervision should be reduced. Similarly, the industrial relations man may be expected to spend a large part of his time negotiating with unions, or the production manager working on product development; such duties as these will affect the number of people they can effectively supervise.

Supervision takes times and energy. The supervisory burden of

each executive, therefore, should take account of other duties that will also draw upon his limited supply of time and energy.[6]

Stability of operations

Every experienced administrator knows the difficulties in tackling a new job, in changing the methods of performing an old one, in making drastic expansions or contractions in the volume of work, in adjusting to other changes in operations. He thinks longingly of the time when things will be running on an even keel, when methods (determined centrally or by the workers themselves) will have become habit, when each person in the group knows what normally may be expected of the others, when his section, department, or company really has "going-concern value." Clearly, the stability of operations, or lack of it, makes a lot of difference in the supervisory work required.

If stability can be forecast over a long enough period to warrant an adjustment in supervisory load, it certainly should be one of the considerations in deciding how many subordinates to assign to a particular executive.

Capacity of subordinates and degree of delegation

Capable and experienced subordinates are relatively easy to supervise. They understand directions quickly, ask fewer questions, require less checking, make fewer errors, and usually are more easily motivated to do a good day's work.

No one has been more thoroughly impressed with this fact than a newly appointed supervisor at International Correspondence School. He was in charge of the accounting records for the thousands of veterans who were taking correspondence courses after World War II. The Veteran's Administration agreed to pay for these courses, but, contrary to the usual practice, would pay only when and as the individual lessons were completed, rather than for an entire course. The detailed record-keeping necessary required the work of sixteen girls.

Unfortunately, only two of those assigned to the new unit had

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[6] These two points, the other duties of an executive and the variety and importance of activities supervised, account in large measure for the empirical rule that the number of immediate subordinates should become fewer in successively higher positions in the administrative heirarchy. They certainly are more important than the often-quoted point by Graicunas regarding the geometric increase in the number of relationships possible among subordinates. See page 261.

worked for the school for as much as one year, and most of the others were fresh out of high school and had no previous work experience at all. What appears to be a reasonable span of supervision, considering the routine nature of the operation and the freedom of the supervisor from other duties, proved to be an almost impossible task. The girls' lack of business vocabulary, thoughtlessness of the effect of errors in their work on other people, and rebellion against the discipline of regular hours would have given a supervisor with a less placid disposition a nervous breakdown. The elevation of one of the experienced girls to "working supervisor" was necessary to provide the guidance needed.

Also important, especially in the higher echelons, is the effect that capacity of subordinates has on the amount decentralization that is practical. When an executive finds it is safe to decentralize authority to make decisions, he eases his supervisory burdens substantially. Of course, as noted in Chapter 10, delegation does not mean abdication. The executive must still spend some time indicating objectives, checking results, and, above all, counselling or otherwise assisting his subordinate. Nevertheless, the total time and effort required should be considerably less than when he attempts to plan and control operations in detail.

It is this factor of capable subordinates and a high degree of delegation that permits the presidents of some of our largest corporations to have a wide span of supervision.

Relative importance of supervisory payroll

Span of supervision has a significant influence on the size of the executive payroll, as has already been noted. In highly competitive industries, if payroll is a large part of costs, this expense aspect of span of supervision should be given particularly careful consideration. In industries where quality of products or service is more important than price, and in those industries, such as chemical processing, where labor is only a relatively small part of the total cost, other factors will probably be more significant than an increase or decrease in executive payroll.

Practicability of relieving an extended span of supervision

Span of supervision is but one aspect of administrative organization, and actual increase or decrease in the span for a particular executive should be made only after considering its effect on the entire struc-

ture. For instance, careful consideration of departmentation may show that the activities under an executive should be divided into seven divisions; to then say that this man's span should be nine or five may well require impractical departmentation.

Similarly, a change in span will have to be reconciled with the basic scheme of centralization or decentralization. Sometimes a desired change in span will also fit in with other desired organizational adjustments. In other instances it simply may not be practical to adjust the number of subordinates to what appears to be the ideal span of supervision for a given executive.

If these compelling reasons result in an executive having a somewhat light supervisory load, this can usually be adjusted by giving him additional duties or using him for special assignments. On the other hand, if circumstances appear to require a man to overextend his span of supervision, then the various means of partial relief should be carefully studied. The more important of these devices are discussed in the next section of this chapter. Somehow, someway, the overextended span should be corrected.

Methods of Relieving an Overburdened Executive

Executives may become overburdened for a variety of reasons. Even with all the alternative arrangements that are possible in most organizations, sometimes there is no practical way to avoid an extended span of supervision for a given executive. It may not be practical to combine two or more divisions, the need for unity of action may prevent a high degree of decentralization, or other considerations already suggested may result in the concentration in a single administrative post of more duties than a single man can effectively perform. What then may be done to provide at least partial relief to the executive in such a position?

Probably the most common way of relieving an extended span is to give the executive an assistant, an *alter ego*, who shares with him the duties of the position. For instance, there may be a plant superintendent and an assistant plant superintendent, or a president and vice-president, who work together so closely that from an organization point of view they constitute a single administrative unit. An inevitable problem in such an arrangement is how to divide the work load and still maintain unity of action. Sometimes there is a division by subjects, and subordinates know, for example, that technical matters

should be discussed with Mr. X while labor problems go to Mr. Y. Occasionally the division will be in the nature of contacts, with one man concentrating on external relations while the other spends most of his time on internal contacts.[7]

More likely, there is no clear-cut division of duties between the executive and his assistant, the allocation of work depending upon what problems are pressing at the moment, the particular experience of the individuals with those problems, and the preferences and natural abilities of the men involved.

The executive and his assistant must form a close partnership if this arrangement is to work. It will break down if each does not keep the other fully informed of his actions, and there is danger that consistent directions will not be given, for if subordinates discover that one man is more lenient on, say, price concessions than the other, they will adjust their requests and advice to whoever happens to be in the office. Difficulties of dual subordination are likely to arise because one partner does not know just what the other has said to an employee.

In other words, this partnership or alter-ego concept may work, but it is inherently difficult. To be effective there must be a proper blending of personalities and experience in working together. The senior man must have complete confidence in his associate since, as in a legal partnership, typically either of the men can speak officially for the office. For these reasons, a combination of two particular individuals may work reasonably well, but if either is replaced the scheme may break down. The arrangement is often a useful one, but because of its inherent weaknesses it should be avoided if some other provision is practical.

A second and closely related measure for relieving an extended span of supervision is the use of *staff* assistants. These men play quite a different role from that of the type of assistant just discussed. The assistant, or alter ego, is clearly in the No. 2 spot, and makes decisions and initiates actions just as the senior executive does. The staff assistant, or the assistant *to* the executive, is, at least theoretically, a nonentity; he does his work on behalf of and in the name of the senior executive. Since the nature and the advantages and disadvan-

[7] If the assistant makes all contacts with subordinates, then it might be said that the senior man had only one subordinate, whereas the assistant had the wide span of supervision (made practical because he was relieved of so many other duties). Usually, however, the senior man feels free to give directions to subordinates and actually both the supervisory and other duties are shared by both men.

tages of staff have already been discussed in Chapter 11, it is sufficient to point out here that if the staff concept is properly understood it does provide a very useful means for relieving an overburdened executive.

One other rather simple arrangement should be at least mentioned. Occasionally it is practical to appoint an intermediary executive to supervise some but not all of the subordinates of the overburdened executive. Thus, a sales vice-president with ten branch managers reporting to him may turn over five of them to a Western Zone Supervisor, while the other five continue to report directly to him. As will be explained more fully in the next chapter, this is not an entirely satisfactory arrangement. The morale of the western managers may be hurt because they do not report directly to the vice-president, and the problems of the eastern branches are likely to receive preferred treatment. While it has many of the earmarks of expediency, the arrangement may, nevertheless, be the most practical in some circumstances.

Summary

In administrative organization the dilemma of extended spans of supervision versus additional executives and management levels presents itself time and again.

The limits on the time, energy, mental capacity, and personal adaptability of every executive must be recognized. On the other hand, increased supervisory overhead usually makes internal communication less accurate, diminishes flexibility, adds expense, and may lower morale. There is no simple formula for balancing these pulls in opposite directions; individual ability and the total supervisory situation need to be considered in a decision for each executive.

The skillful organizer will analyze at least the following points in arriving at an optimum span for an individual: variety and importance of activities supervised, other duties the executive is expected to perform, stability of operations, capacity of subordinates and the degree of delegation, relative importance of supervisory payroll, and practicality of relieving the executive if overburdened.

When there are compelling reasons for giving an executive more subordinates than appears wise, provision of an alter ego, use of staff assistants, or creation of uneven strata may provide a practical solution.

Most of the problems an administrator will face in organizing his firm have been discussed in the last eight chapters. Departmentation,

service divisions, delegation, authority relationships, staff, decentralization, committees, boards of directors, and span of supervision have all been considered. To a large extent, these have been treated as separate issues. For best results, however, they should usually be viewed as parts of a closely knit structure. This over-all, integrated approach is emphasized in the next two chapters on organization structure.

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Chapter 16

ORGANIZATION STRUCTURE

Significance of organization structure. Organization structure deals with the over-all organizational arrangements in an enterprise. Effective administration requires that this structure be in balance and be adapted to major objectives and basic operations. This means that from time to time the administrator must sit back and look at his organization as a whole, and consider whether alterations might produce more effective results.

A clear grasp of organization structure is also helpful in making the more frequent detailed adjustments in organizational arrangements. These changes should be made in a way that is consistent with the basic pattern, or if an exception is necessary it should be recognized as such and not treated as a general precedent. For example, a company with a structure calling for decentralized operations may decide to centralize negotiations of union contracts because of union insistence on a company-wide contract. But if this exception paves the way for the centralization of a large variety of other personal activities there will be a serious rift in the whole decentralized structure and a potential source of friction and delay will have been created. Just as policies provide the framework within which procedures and programs are developed, so too will the organization structure provide the pattern around which the detailed administrative relationships should be woven.

Organization structure is like the architectural plan of a building, and the larger and more complicated the building, the more important it is to have a central architectural plan. Many a New England farmhouse just grew without any general plan; the first two or three rooms were constructed when the family was small and time and materials were scarce. As the family grew, a wing with one or two more bedrooms was added; then perhaps a larger kitchen was placed on the back; and when Aunt Nellie came to live with the family, still another wing with its own sitting room was built.

The materials and quality of workmanship in these sundry additions

varied with conditions at the time they were erected. Some had deep foundations, others were built on the surface of the ground. Often the floor levels didn't match, particularly on the second story. Such structures serve their purpose reasonably well, but they would have been more efficient had there been a central plan around which each of the major additions was made. Certainly a modern plant or office building cannot be constructed in such a haphazard manner; nor should organizing a business enterprise be approached in such a haphazard way.

It is the function of the architect to consider the purposes of the building, the types of space and special features needed, the relative cost of alternative means of construction, and similar considerations; and then to develop a single optimum arrangement that recognizes each of the considerations. The pleasing exterior lines, for instance, must be consistent with the size of office space and elevators needed for operational purposes within; the plan for a large assembly room must not create structural weaknesses, and provision must be made for heat, light, safety, and the like. Before this modern building is erected, there is, of course, need for engineering plans and specifications covering structural steel, electric wiring, plumbing, et cetera; but vital as these engineering specifications may be, they do not provide the over-all design. A good architect is one who is familiar with the possibilities and limitations of various materials, processes, and equipment, so that his final plan is not only a creative adaptation to broad objectives, but also is a practical program for detailed execution.

Similarly, the administrator when designing an organization structure must take into account the benefits of specialization, the limitations on functional authority, problems of communication, and a variety of other specialized aspects of organization. He is considering them here, however, as individual parts that need to be fitted together into an integrated structure. The resulting whole is greater than the sum of its parts.

An approach to organization structure. In designing an organization structure one starts with the objectives and the activities of the enterprise. These should have been established by previous planning, and with minor modifications are accepted as fixed in the organizational planning stage. With this background information, organization structure can usually be developed by considering:

1. *Primary departmentation;* that is, the major operating divisions into which the work may be best divided,

2. *Focus of operating responsibility;* that is, the units and particularly the levels at which most of the operating decisions will be made,
3. *Facilitating units* that are needed to guide and assist those charged with primary operating responsibility,
4. *Structural arrangements* that will add simplicity, consistency, and otherwise contribute to the smooth working of the organization.

Several of these points have already been considered in previous chapters, and consequently only brief treatment will be necessary here. In dealing with organization structure we shall assume familiarity with the more detailed questions and will consider departmentation, delegation, staff, and similar issues merely as part of a general whole. In other words, we are treating them here from quite a different point of view than was taken in Chapters 8 to 15.

Before exploring each of these four aspects of organization structure, it should be noted that a department manager or division director may have problems of organization structure within his particular sphere of activity, just as the top executive of an enterprise is concerned with the entire organization structure. The departmental executive must, of course, arrange his activities in a manner consistent with the over-all structure, but this often leaves him considerable latitude.

The departmental manager, like the president, should from time to time consider the primary departmentation of activities under his direction, the focus of operating responsibility, the special units necessary to facilitate activities, and the general structural arrangements. There are questions of organization structure even within small units, although, as the number of people and variety of activities are reduced and the company-wide or departmental pattern limits the alternatives, organization structuring of subsidiary units becomes more simple. Nevertheless, at any executive level, an ability to think of organization as an integrated whole instead of a series of semi-independent problems is a distinct asset.

Primary Departmentation

What should be major departments?

Grouping activities into major operating departments is the most obvious and usually the first thing to consider in establishing an organization structure. In some enterprises this primary division is inher-

ent in the nature of activities, as for example in a small manufacturing concern where selling, manufacturing, and office work are clearly separated activities.

In a great many enterprises, however, the best primary departmentation is by no means so evident. For instance, when the agency that later became the Petroleum Administration for War was first established, there were those who recommended an organization based largely on the "trouble spot" or "squeaky wheel" principle. Steel and other materials were scarce, and therefore a materials division was suggested; aviation gasoline refining facilities had to be constructed, and therefore a construction division was proposed; plants needed to be protected against possible enemy attacks, and this called for a protection department; there was an acute shortage of gasoline on the East Coast, and this led to a proposed rationing division; and so forth. Each time a new trouble spot developed, an additional division was proposed.

Several of these recommendations made very good sense, and yet it soon became apparent that if overlapping and confused jurisdictions were to be avoided the principal activities had to be grouped together into a relatively few major divisions. As will be noted in Figure 26, five domestic operating divisions and three foreign operating divisions were eventually established, and the chief functions of the remaining divisions were to facilitate the work of these major operating units. Then, when trouble arose, there was a place where it could be handled in close coordination with related problems. This concept of operating divisions contributed greatly to the efficiency of the agency.

Primary departmentation should be subjected to periodic examination because changes in the operating conditions may modify the organization that is most effective. For example, Mr. J. B. Hall, president of the Kroger Company, reports that each of their many stores, for a long time, had a separate grocery manager and a meat manager. This separation of groceries and meat was maintained not only in the stores; it ran straight up through the organization. The trend in retail grocery distribution through supermarkets compelled the company to make a major change in the organization structure. Now there is a single store manager, a district manager, and a branch manager, each of whom is responsible for both groceries and meat. Looking back, Mr. Hall commented, "Single-man control is so superior to the de-

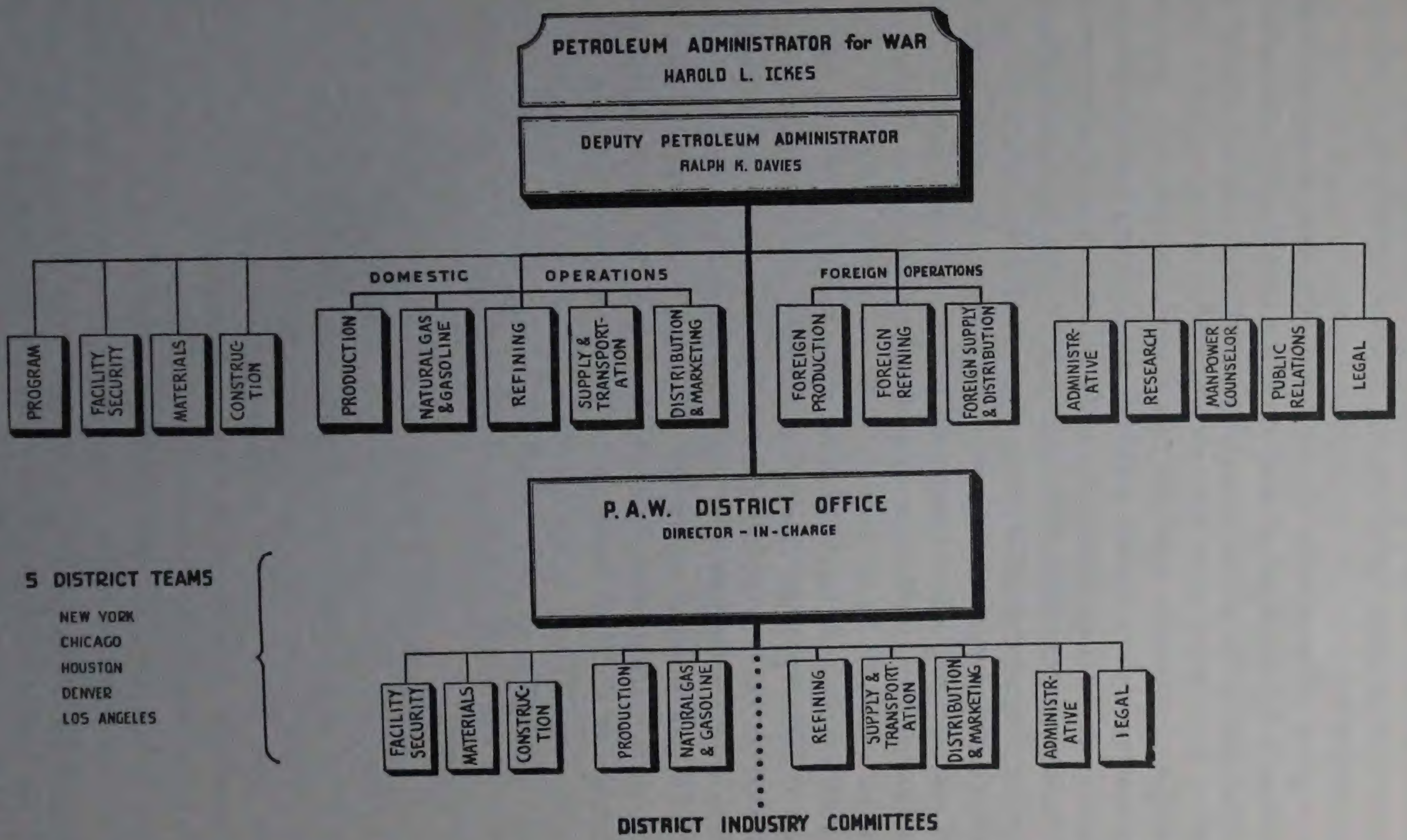

FIGURE 26. Organization Structure of the Petroleum Administration for War

partment manager set-up that now we wonder why the old system hung on for so many years."[1]

Another example of a change in primary departmentation is reflected in the two charts of the Stromberg-Carlson Company, shown in Figure 27. This company manufactures radios, television receivers, sound systems, telephones, switchboards, and completely automatic switchboard systems, and also operates radio and television broadcasting stations. It will be noted that the former organization was primarily "functional," with each department (except broadcasting) dealing with all products. In the new organization separate divisions have been created for the different types of products, and the manufacturing, engineering, and sales activities have been allocated to these divisions. Differences in the manufacture of telephone equipment and that for radio and television, and a desire to improve control over expenses were the primary reasons for this shift.[2]

Guides to effective departmentation have already been discussed in Chapter 8. Fundamentally, the administrator must seek a division of activities that provides the greatest advantages of specialization, facilitates control, aids in coordination, secures adequate attention to important activities, recognizes local conditions, develops people, and keeps expenses low. These considerations are applicable to primary departmentation as well as to refinements in departmentation, which were discussed in the earlier chapter.

Follow a consistent basis

An additional point that should be given careful consideration in establishing an organization structure is the desirability of creating primary departments on a consistent basis. Thus, if most operating activities are divided among territorial divisions, there is a distinct advantage in having all operating activities classified territorially. Or, if the primary departments are functional in character, then the consistent use of a functional departmentation is likely to result in a simpler organization structure.

The old Stromberg-Carlson organization, for example, had divisions for engineering, manufacturing, quality control and sales—each functional in nature—and also a sound-equipment division. (See Figure

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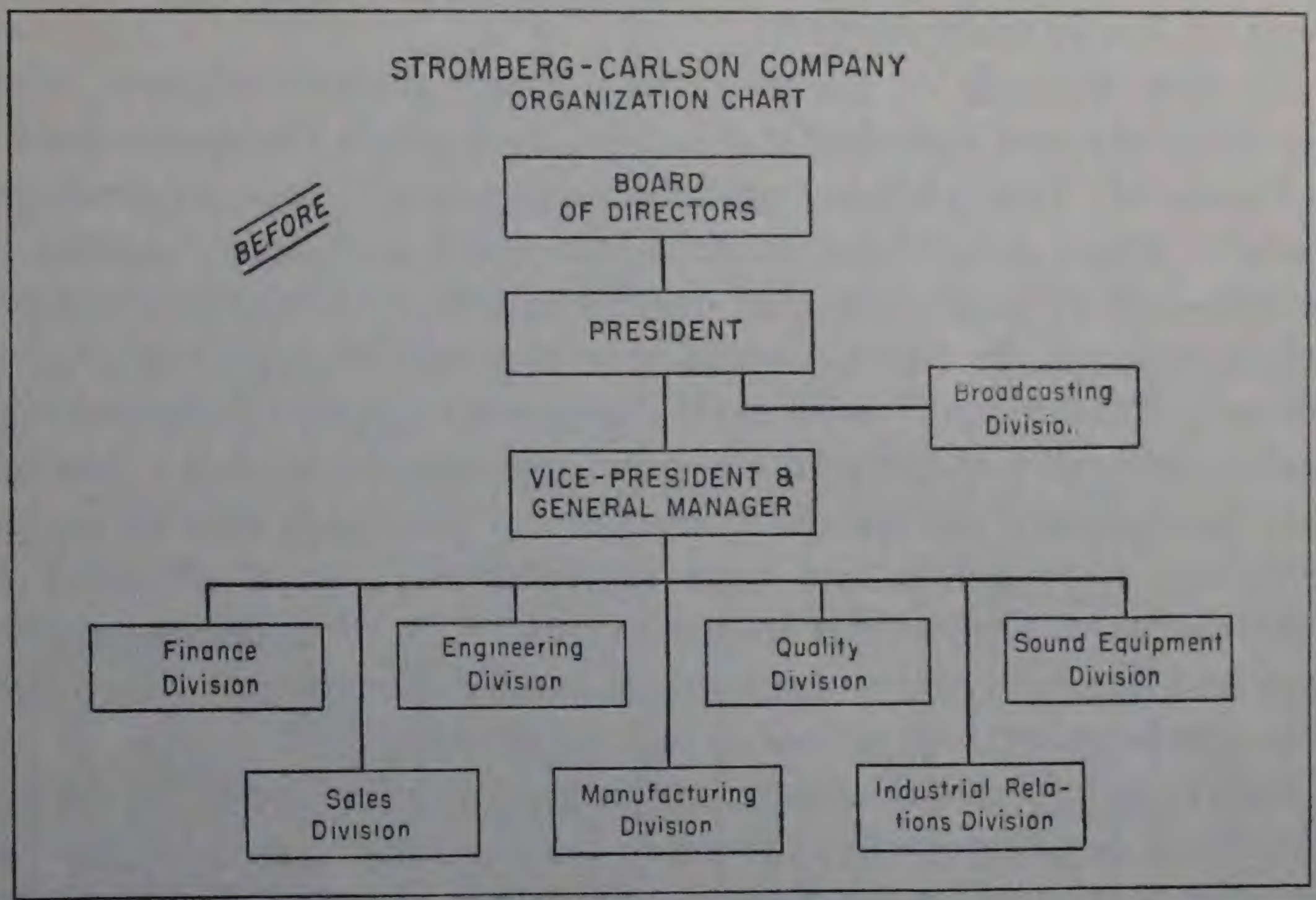
[1] "Leadership in an Evolving Organization," *The Development of Executive Leadership*, M. Bower, ed., Harvard University Press, 1949, pages 97-113.

[2] See H. R. McCullough, *Departmental Reorganization*, American Management Association, Office Management Series, No. 126.



Courtesy, Stromberg-Carlson Company and American Management Association

FIGURE 27. Chart Showing Revision of Stromberg-Carlson Company Organization

27.) This naturally led to some confusion as to who was responsible for the engineering, the manufacturing, and the sales of sound equipment. The War Production Board ran into a similar difficulty when it attempted to set up major operations by industry groups, and then set up a governmental bureau that was really a "customer" department whose interests cut across those of several of the industry departments.

It is not always practical to follow one basis of departmentation through all operating activities. Many manufacturing companies, for example, have a West Coast branch that combines manufacturing, selling, and financial operations, whereas the rest of their company is divided along functional lines. Likewise, it will be noted in the organization chart for the Petroleum Administration for War that a separation was made between foreign and domestic production, foreign and domestic refining, et cetera. In situations such as these, the need for local knowledge, adequate attention, and coordination on a greographic basis outweighs the advantages of the single, consistent basis of departmentation.

Nevertheless, each time this is done the organization structure is made more complex. It is often harder to establish a "clean break" in responsibility and, consequently, control is more difficult; frequently special provisions for coordination are required. For these reasons a consistent basis for departmentation of operating activities is desirable, though it is not always essential.

Focus of Operating Responsibility

The second vital characteristic of organization structure is the level at which operating decisions will be made. In the discussion of decentralization in Chapter 12, it was noted that the number and quality of employees, the procedural flow of information, and the need for elaborate planning and control measures all are affected by the extent to which authority is decentralized. Therefore, along with the plans for primary departmentation must go a concept of centralization or decentralization. In the more picturesque language of L. S. Fish, "Where are you going to put the real horsepower?"

The effect of a shift in the center of operating responsibility from the headquarters office to the district offices of a manufacturing concern is indicated in Figure 28. Unfortunately, most two-dimensional organization charts reflect very inadequately the degree of decentralization existing in the organization. Anyone familiar with actual

operations of several companies, however, knows that this is a very distinctive and pervasive attribute of the organization structure.

To cite a well-known contrast, for many years the Ford Motor Company used a highly centralized organization in which a great many of the policies, methods, procedures, and programs were decided in the headquarters office. In contrast, the General Motors Corporation has emphasized decentralized authority, at least to the heads of the various major divisions; the chief executives of Chevrolet, Fisher Body, Frigidaire, and other similar units have been granted wide discretion in guiding the activities of their particular divisions. No executive has really thought through his organization structure until he has conceived of the general pattern of decentralization he expects to employ.

In complex operations there is also need to decide which units should have a staff role and which should be centers of operating responsibility. The United Nations Relief and Rehabilitation Administration, for instance, established departments to care for activities in northern Europe, central Europe, the Far East, and other geographical areas. At the same time there were functional divisions for procurement of supplies, shipments, distribution control, and so forth. Admittedly, one set of divisions overlapped the other, but this was all to the good, because it was necessary to coordinate activities both on a regional or a national basis, and also on a functional basis. The serious weakness, however, and one that was never satisfactorily remedied, was a failure to decide which group of divisions should have operating responsibility. This resulted in overstaffing, jurisdictional jealousies, low morale, and administrative inefficiency.

The United States State Department with its divisions for various geographical areas of the world, and also its divisions for international trade, cultural relations, diplomatic relations, and petroleum, wheat, and other products, faces a similar dilemma. As long as State Department activities continue to be concentrated on policy-making and planning, this dual organization can be made to work reasonably well; but if the Department takes on operating functions, it will be necessary to distinguish sharply between units that carry the operating responsibilities and those which are primarily intended to perform planning and coordinating staff work.

This type of problem is by no means confined to governmental operations. A large meat-packing company with plants located from the Atlantic to the Pacific, for example, has a group of regional ex-

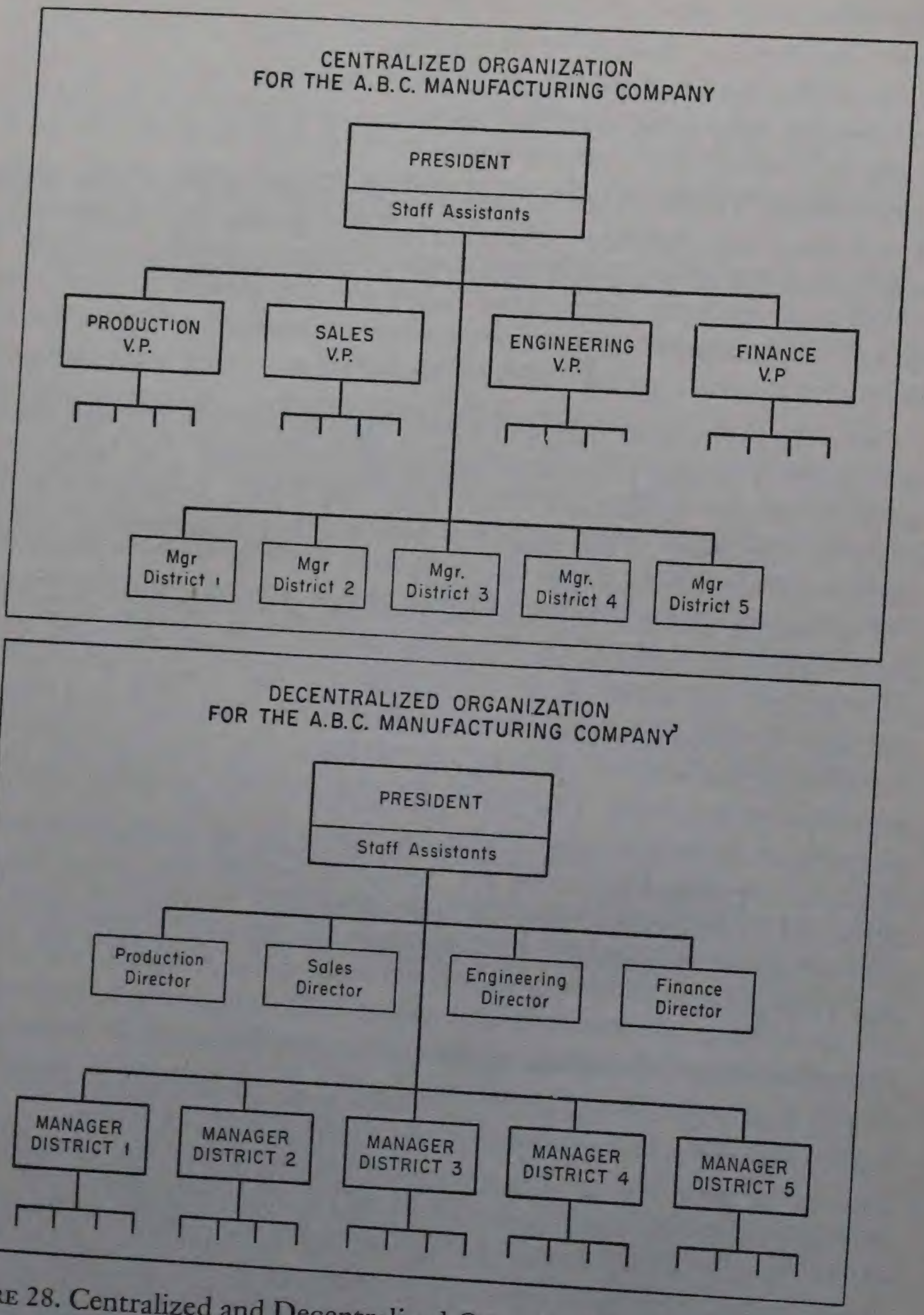


FIGURE 28. Centralized and Decentralized Organization of a Manufacturing Concern.

ecutives and also a set of executives for beef, pork, produce, and other major products it handles. This particular company places primary responsibility on its several regional executives, but the structure is by no means as clear as it should be, and some confusion is the inevitable result.

Frequently, consideration of primary departmentation and the focus of operating responsibility go hand in hand, and from this should come a clear concept of the major blocks in the organization structure.

Facilitating Units

Once the major operating units have been tentatively decided upon, as suggested in the preceding paragraphs, the need for facilitating units should be considered. Such units are often necessary for the effective operation of the main departments and constitute an important part of the organization structure.

The nature and the typical relationships of facilitating units have already been discussed in the chapters on service divisions, staff, committees, and top administrative organization (see Chapters 9, 11, 13 and 14). A thorough grasp of these concepts is essential background for an administrator who is thinking of placing facilitating units in an organization structure. The basic problem at this stage of organization planning is to decide what additional divisions, sections, committees, or other organizational units are needed to assure that the operating departments function effectively and efficiently. Among the more important points that should be considered in this connection are those that follow.

Coordination of operating units

The fact that operating departments need to be coordinated does not necessarily mean that special organization units should be created. In a great majority of situations such coordination can be obtained through voluntary cooperation of the executives concerned and supervision by the senior executive, as will be explained in Chapter 22. Nevertheless, in some situations the problems of coordination may be so numerous and complex that a special unit or standing committee is desirable.

Companies manufacturing highly styled or other fast-moving products sometimes find a special division charged with coordination of purchasing, production, inventories, pricing, and sales promotion con-

tributes substantially to profitable operations. Food companies, such as meat packers, which deal with a perishable and fluctuating-price article, often have a similar need. The experts in buying, processing, and selling may not have a thorough knowledge of the other functions, and even if they do they often are too busy concentrating on their major responsibility to anticipate all the detailed adjustments necessary to fine coordination.

When considering organization within a large department, a similar need may be found. For example, many manufacturing departments have a production-planning and control unit that coordinates the flow of goods from one shop to another. Coordinating committees are, of course, even more common than full-time units.

It will be noted that such coordinating units are almost always organized on a different basis than the major operating departments. Thus, if the operating departments are grouped along functional or territorial lines, the coordinating units are likely to deal with products On the other hand, if the major operating divisions are based on products, the over-all coordination may be in terms of purchasing or advertising. The coordinating units or committees are intentionally designed to crisscross between several operating departments. As activities of an enterprise become larger and more complex, there is increased need for such facilitating units.

Consistent action throughout the enterprise

Activities such as record keeping or storage of supplies are typically found in most operating departments, and occasionally there may be compelling reasons why these activities should be performed in a consistent, if not uniform, manner. The growing recognition of the advantages of decentralizing is reducing the emphasis on uniformity of action. Nevertheless, in some cases the need for consistent action may be sufficiently important to justify a staff unit that follows an activity throughout the enterprise.

The increased emphasis on fair treatment of employees, for instance, and the rise of labor unions, which are quick to call attention to personnel action in one department that is not as favorable as that of another department, make reconcilable personnel practice within an enterprise highly desirable. One of the reasons for establishing a separate personnel division is to secure this consistent action.

Consistency of accounting practice is essential to sound, consolidated financial statements, and for this purpose almost every enter-

prise has some form of central accounting unit. To cite still another illustration, occasionally the maintenance of consistent selling prices is so complex that a central unit is established for this purpose.

Assure adequate attention

Operating executives, naturally and appropriately, concentrate on their major responsibilities. In so doing they may neglect activities that are important to over-all results. This type of situation may call for placing the secondary activity in a separate division. For instance, one of the reasons why quality control may be specifically separated from production operations is to be sure it receives adequate attention; the more important the quality is to successful operation, the higher in the structure is this separation likely to be carried.

Likewise, public relations is such an elusive and yet important aspect of total operations that its guidance is frequently placed in a separate division. Of course, if the need for adequate attention is combined with advantages of specialized skill or the need for independent control, then the pressure for a separate auxiliary division is even more compelling.

Provide control arms

In every large-scale enterprise, special methods for assuring that activities conform to plan are necessary. Auditing of records, inspection of finished goods, and similar devices are often used. These mechanisms of control, sometimes called control arms, are usually separated from the operating departments to secure objectivity and independence of judgment. General Somervell introduced into the Army Service Forces, and has since applied to private industry, a separate control division responsible for organization, planning, design of procedures, compilation of statistical progress reports, and general inspection of operations.[3]

It is not always practical, however, to keep the control arm fully separated from operations at all echelons. If a department manager as well as the senior executive wish to use budgets as a control device, for example, it may be desirable to have the senior budget officer rely upon a budget section within the department for detailed information, rather than attempt to secure all necessary information through a separate organization. This arrangement has the advantage not only

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[3] See G. M. Walker, *The Control Section as an Aid to Management*, Koppers Company, Inc.

of economy, but also of encouraging control close to the scene of action. As long as the senior executive receives full and objective reports, such an arrangement is generally desirable.

Common use of specialized skills or facilities

Frequently, facilitating units are added to an organization structure in order to utilize fully special skills or facilities. Printing, traffic, legal, I.B.M. tabulating, technical or economic research, and industrial engineering divisions are examples of this type of auxiliary unit. It is too expensive for each of the operating units to have its own specialists, and so a single division is established to serve all departments of the company.

Separate service divisions, as contrasted with self-contained operating departments, add to the complexity of an organization structure, and should be established only when it is clearly evident that significant economy will be obtained.

Relieve overextended spans of supervision

When a key executive has more people reporting to him than he can adequately supervise, and consolidation of subordinate divisions is impractical, the addition of staff assistants may provide a practical remedy. These assistants serve as eyes, ears, and idea men for the hard-pressed executive, and thereby shorten the time the executive must devote to a particular problem. Here again, complexity in organization relationship is increased, and staff assistants should be added only when their use strengthens or simplifies other parts of the organization structure.

Aid in top-management functions

Every organization structure should make provision for the performance of top-management functions. As explained in Chapter 14, someone should take a long-range, broad-gauge social and economic point of view of the company activities, and develop general plans to cope with the anticipated social and economic problems. Since the board of directors frequently cannot be relied upon to perform this function, and the chief executive is often too busy, some additional provision may be necessary.

Location of facilitating units

The facilitating units must be placed in the organization structure where they will be effective and at the same time not unduly interfere

with the main stream of operations. Generally, service units are best placed in the department that makes the most use of them, unless they are important enough to warrant immediate supervision by a top executive. (See Chapter 9.)

Control, coordinating, and long-range planning units normally report to the senior executive, inasmuch as they perform functions that he might himself perform if he had the time and specialized ability. It is clearly undesirable to have a control or a coordinating unit subordinate to an operating executive whose activities are being regulated; to do so weakens the guidance over that executive and places him in an anomalous position vis-à-vis other department executives.

Unfortunately, this may place a large number of division executives under the immediate supervision of the senior executive, and even with staff assistance the senior executive may not be able to handle the load. The army overcomes this difficulty by providing a chief of staff who supervises all staff divisions, and otherwise acts as the alter ego of the senior executive. The chief of staff coordinates and sifts staff recommendations before submitting them to the top executive, and this permits the commanding officer to spend more time on urgent matters. True, the staff units are somewhat subordinated, but this is partially offset by the greater prestige and influence of the chief of staff, who must be a member of the "inner circle." Another arrangement, more common in business, is the grouping of several, though not all, of the auxiliary units under a service director or a vice-president.[4]

It is important to note that there is a major difference between the role of such a director and that of an operating manager. The manager typically assumes a proprietary interest in his department, and operates in a semi-independent sphere of administration. The chief of staff or service director, on the other hand, must work intimately with the senior executive to assure unity in administration.

Summary. The foregoing suggestions of possible facilitating units is certainly not intended as a recommendation that all such units should be placed in every organization structure. Quite the contrary. Such units should be established only when the need for them is clear. The list is intended merely as review of possibilities.

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[4] For a description of a somewhat similar arrangement in government, see B. L. Gladieux, "Administrative Planning in the Federal Government," *Processes of Organization and Management*, C. Seckler-Hudson, ed., Public Affairs Press, 1948, pages 171-188.

In contemplating the total organization structure, the administrator should at least check the need for separate units to coordinate operating divisions, secure consistent action throughout the enterprise, assure adequate attention to significant functions, make general use of specialized skills or facilities, relieve overextended spans of supervision, aid in top administration activities, and provide control. Such units can, when properly employed, fill in the gaps and otherwise facilitate the smooth operation of the organization.

(References will be found at the end of the next chapter.)

Chapter 17

ORGANIZATION STRUCTURE *(Continued)*

Structural Arrangements

Setting up primary departments, determining the centers of operating responsibility, and adding facilitating units where needed are three vital aspects of organization structure that have been reviewed in the preceding chapter.

Organization structure also deals with the *arrangement* of the operating departments and facilitating divisions that have been decided upon. Important in this regard are:

1. Span of supervision
2. Even strata
3. Parallel departmentation.

As we shall see, these considerations deal with much more fundamental issues than merely providing a symmetrical and well-proportioned organization chart. Span of supervision has been discussed in Chapter 15, while the nature and significance of even strata and parallel departmentation will be considered here.

Even strata

Reasons for seeking even strata. As a general rule it is desirable that all individuals reporting directly to a single executive be of about the same status or rank. Under this concept only shop superintendents and top production staff men would report to the production manager; and, the president will have reporting directly to him only the top operating men and perhaps a vice-president in charge of service divisions. By this rule, the department store organization, indicated in Figure 29, which has both division merchandise managers and individual buyers reporting directly to the general merchandise manager, would be considered an undesirable structure.

The advantage of even strata is partly a matter of attitude and morale among the junior executives. If, say, two or three foremen

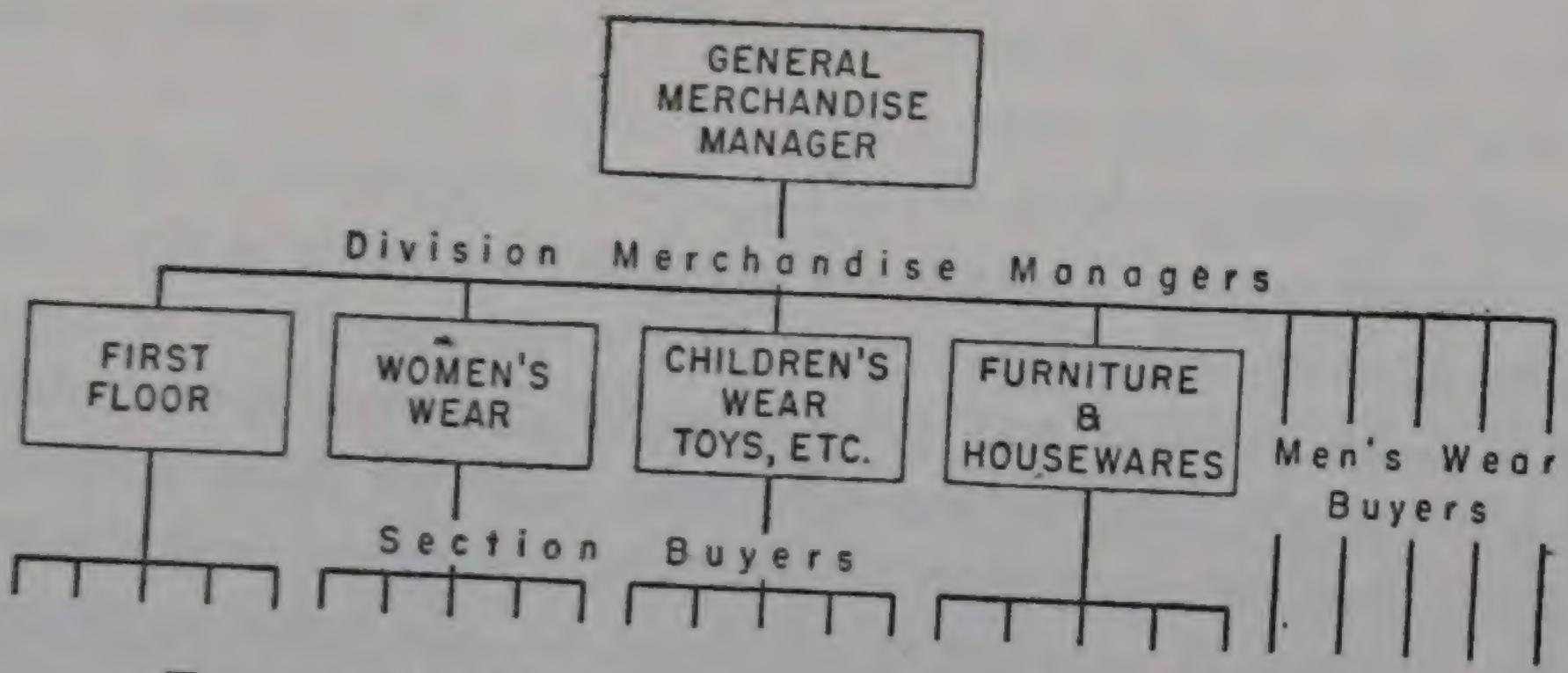

FIGURE 29. Organization with Uneven Strata.

report directly to the production manager, whereas all other foremen report to shop superintendents, there may be some bad feeling among foremen who deal with the production manager only indirectly and receive instructions from men of lesser stature. Moreover, a shop superintendent may feel some loss of prestige when the "big boss" gives as much attention to foremen as to him. Even when titles clearly distinguish between the two levels of junior executives, this attitude toward relative status is likely to occur.

More serious is the danger that the senior executive will attach unwarranted significance to those activities that he supervises more closely. For any of us, the difficulties we know best are apt to seem the most serious, the problems we ourselves have to solve are likely to appear the most difficult and the most urgent. Consequently, it is hard for the executive who has subordinates on different levels to maintain a properly balanced perspective on all the operations. Because of his higher position, his views and his requests are apt to be given priority; and if his perspective becomes warped he is likely to condone or even demand favored treatment for "his" divisions.

Strata may not be clear-cut. In actual practice, however, this concept of even strata is often difficult to follow. In the first place, it is not always clear which executives should be considered on the same level. Does the manager of a department processing and selling a by-product rank along with the sales manager for the major product? Should advertising be separated from sales, purchasing from production, accounting from finance, and should the heads of each of these activities report directly to the chief operating executive? Certainly the number of employees in a department or division is an inadequate criterion; for example, in a commercial bank a supervisor of routine transit operations or bookkeeping may have ten times as many em-

ployees as the executive responsible for the bank's investment, though clearly the latter is the more important position.

Perhaps the best guide in deciding which departments, divisions, or sections should report directly to any key executive is the extent to which the activity must be considered by that executive in formulating his over-all policies and programs. In addition, where there are several units performing similar activities, as when there are a number of branch offices or manufacturing plants, it is often desirable to consider the executives in charge of them on the same organizational level, even though there is admittedly a substantial difference in size or importance among the branches or among the plants. These guides will help to establish strata or levels among the executives, but there will always be a few borderline cases whose status is determined on the basis of executive personality or by the span of supervision of the senior executive.

Even strata and span of supervision. Another reason why it is difficult to have uniform strata is that the number of subordinate units do not always fall within what is considered to be a reasonable span of supervision. For example, twelve branch managers may be more than a sales manager can adequately supervise and also perform his other duties. Then, just because an assistant sales manager is appointed to take over the supervision of seven of these branches is scarcely reason enough to insist that a second assistant sales manager be appointed to supervise the remaining branches. Or, turning back to the department store merchandise manager shown in Figure 29, if it is assumed the merchandise manager has ample time to supervise the four division merchandise managers and the five buyers of men's wear, it could well be argued that niceties of organization structure do not justify the expense of an additional division merchandise manager for men's wear.

In other words, having all people reporting to a given executive on the same organizational level may be desirable, but in particular circumstances the cost may outweigh the benefits. When faced with a situation of this sort, careful attention should be given to the possibility of using staff assistants (typically of lower rank), which will permit the executive in question to supervise a greater number of subordinates. Reallocating duties or modifying the extent of decentralization is another way to provide full-time jobs while maintaining even strata.

Titles can show difference in status. If after exploring these possibilities it is decided that junior executives of different levels should

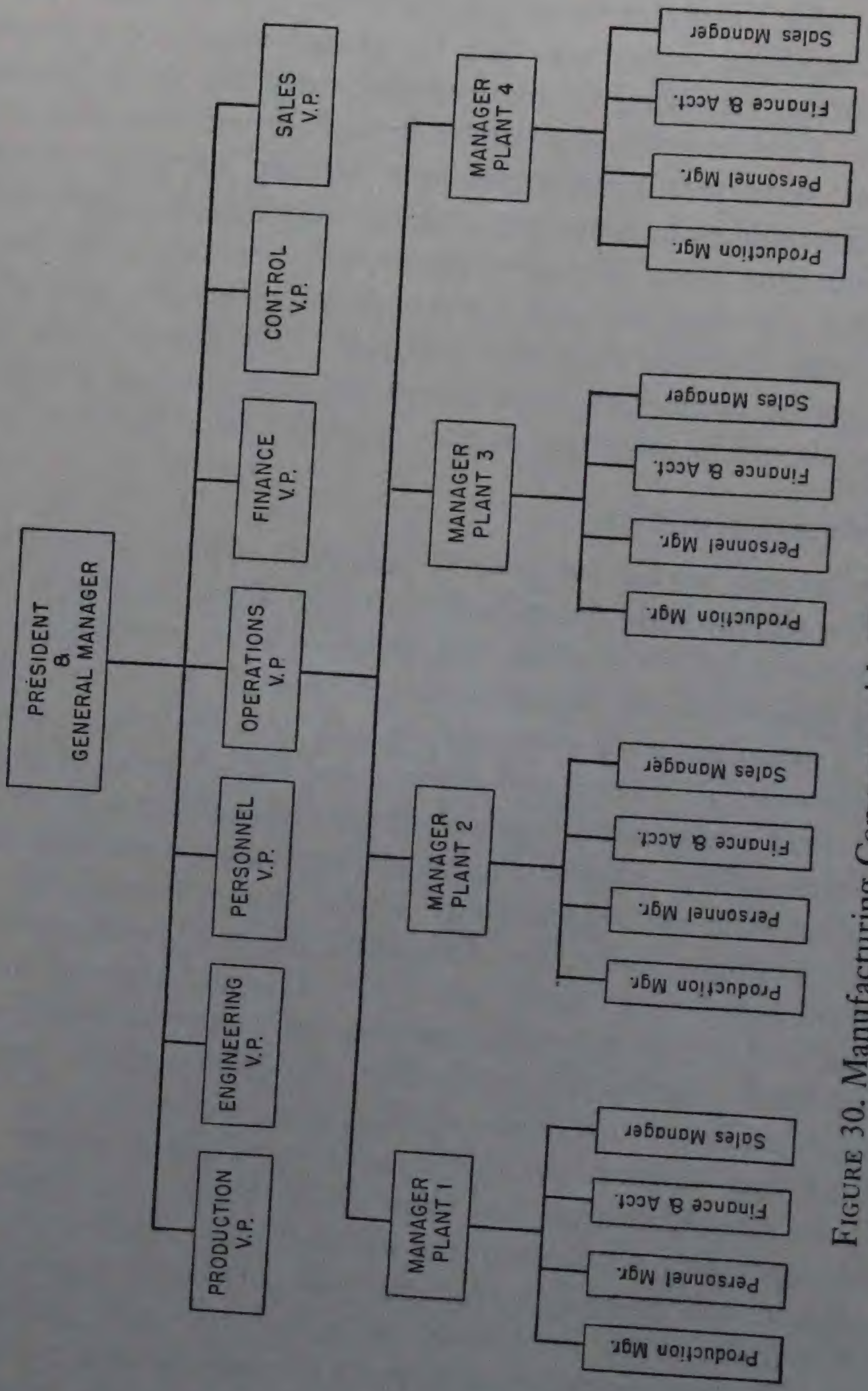

FIGURE 30. Manufacturing Company with "Parallel" Organization Structure.

report to a senior man, then the difference in status should be indicated by title. For example, staff assistants or directors of service divisions should have titles that clearly distinguish them from executives responsible for major operating divisions. At the higher echelons the more important executives can be named vice-president, while other executives reporting to the president carry the title of manager or director. Titles may also be helpful in such situations as that of the department store merchandise manager already discussed. Here it might be desirable to indicate that a single individual is actually filling two separate jobs, those of general merchandise manager, and division merchandise manager for men's wear. In other words, you should recognize that the executive has "two hats." The use of titles in the ways suggested reduces to some extent the disadvantages of uneven strata, but should be regarded as only a partial remedy.

Parallel departmentation

Larger enterprises having several branches, plants, or field offices performing similar activities may find parallel departmentation useful. Under this scheme, the sections and divisions in each of the operating units are established on the same basis. Figure 30 shows the principal units in a manufacturing company. It will be noted that, except for the combination of finance and control and the omission of engineering, the organization within each plant parallels the organization in the headquarters office. This similarity in departmentation extends even farther than indicated on the chart. Under the production vice-president, for example, there are divisions concerned with purchasing, production scheduling, traffic, plant services, and construction; and under each of the plant production managers there are units responsible for local purchasing, production scheduling, traffic, and plant services, in addition to several production superintendents.

Still another illustration of the same principle is shown on the Petroleum Administration for War chart, Figure 31. Each of the domestic operating divisions in the national office had its counterpart in the district offices, and, in addition, both national and district industry committees were established to cover the same grouping of activities. Further examples of this same pattern may be found in equipment finance companies, railroads, chain stores, government bureaus, and military establishments.

Advantages. The chief advantage of parallel departmentation is the ease with which executives in the headquarters office and the sub-

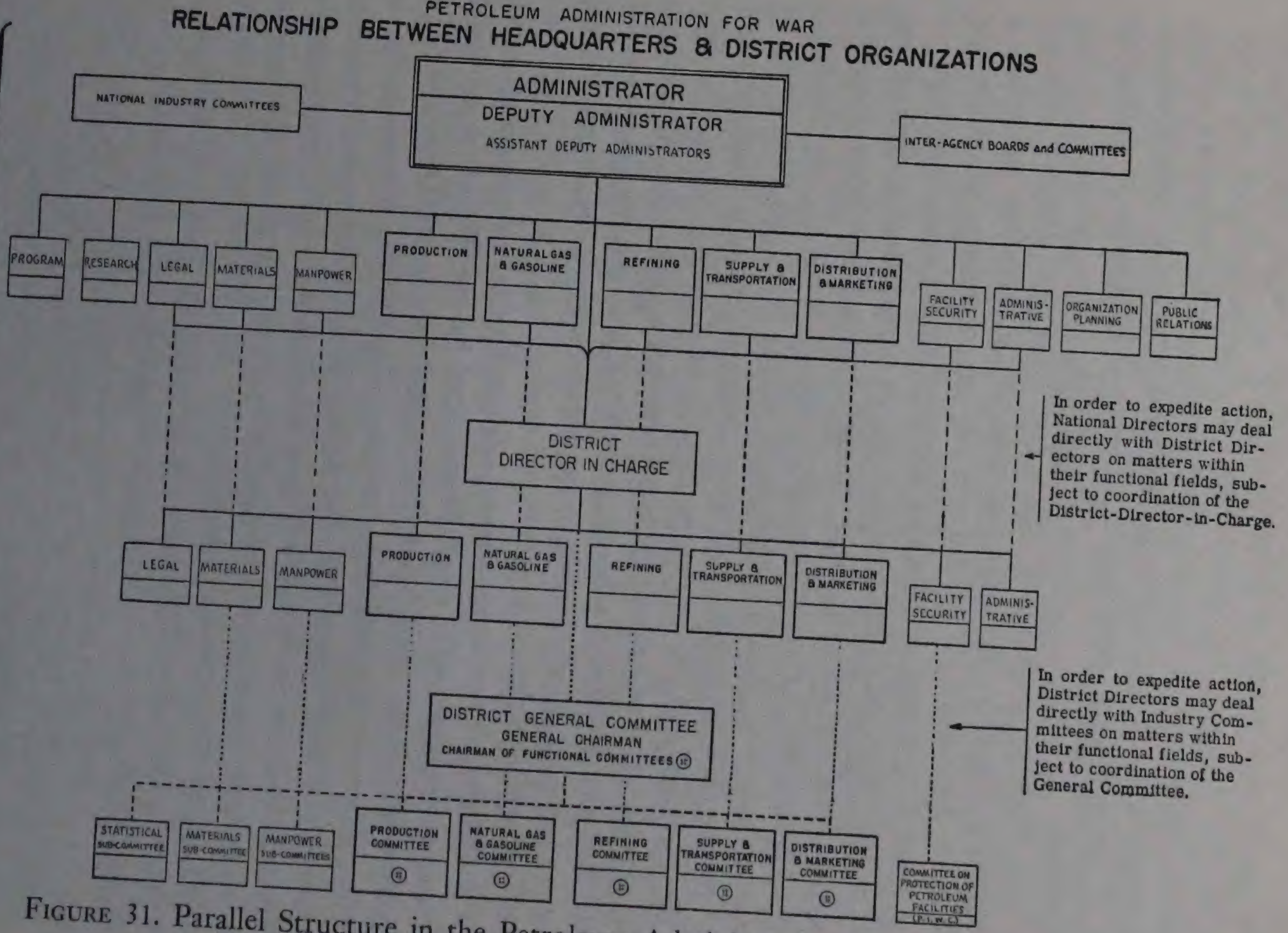

FIGURE 31. Parallel Structure in the Petroleum Administration for War.

sidiary units may work with each other. A branch executive, for instance, needs to go only to one man in the headquarters office for assistance and guidance. On the other hand, a traffic executive with a counterpart in each of the operating subsidiaries knows just where to turn if new freight regulations call for adjustment in company procedures.

In the Petroleum Administration for War the parallel form of organization enabled the national director of refining to secure a change in the country's production of, say, kerosene within a few days' time. In contrast, a failure to provide parallel organization structure in the War Production Board made cooperative action of the industry divisions and the field offices extremely difficult. Personal acquaintanceships were lacking; there was no sense of "our man"; it was not clear who would do the work in the field and who could be held responsible for results; therefore industry divisions were reluctant to decentralize and the exchange of information was poor. The field offices typically had organization corresponding with the Washington staff divisions (priority, salvage, et cetera), and the cooperation with these units was much better; but, unfortunately, this removed the field offices from the main stream of operations.

Parallel departmentation also makes the transfer of personnel easier. The sales manager of a small branch can be transferred to a similar position in a large branch without spending a lot of time learning a new pattern of organizational relationships. A man may be given training and experience that will fit him for any of several positions. There are, of course, many informal relationships that must be learned in each new situation, but a similar grouping of duties substantially reduces the difficulties of transition.

Also, when several departments or divisions are set up in the same manner, control over them is made easier because results of one unit can be readily compared with those of other units. This principle of "deadly parallel" has already been discussed in Chapter 8.

Parallel departmentation, then, has distinct advantages over and above the somewhat dubious argument that the best setup in one situation is *ipso facto* good for all units performing similar operations.

Disadvantages. The chief difficulty with parallel departmentation is its lack of adaptability to local conditions. Warehousing, for example, may be a major problem in one branch but only a minor one in another. A personnel officer may be an extremely valuable part of the

executive group in one branch, whereas personnel transactions in a small branch are so infrequent that its personnel officer finds trouble keeping busy. In a railroad one division may be the source of bulk carload traffic (for example, coal), while another division is primarily busy with the delivery of L.C.L. freight. Of course, almost every local manager will say, "My problem is different," and keen judgment is often required in deciding when this is mostly personal whim and when local conditions are sufficiently different to justify deviation from the established pattern.

With parallel departmentation there is also danger that the executive payroll will be somewhat higher than necessary. Separate operating executives and staff officers may be included in the local organization because it conforms to the general pattern; whereas if activities were grouped purely on the basis of local considerations, fewer positions would be created. The most common way of overcoming this difficulty is to go ahead with the more elaborate organization, and then have one executive serve in two positions. In small army commands, for example, it is not uncommon to have the same officer serve in both a staff and a line capacity. Even with this modification, however, it is not always possible to find full-time assignments for executives that are assigned because of the general pattern.[1]

Finally, it should be noted that the benefits of parallel departmentation vary at least in part with the frequency and importance of the contacts between the executives concerned. Thus, if competitive conditions and adjustment of product design require that the national sales manager keep in close touch with each district operation, parallel departmentation is much more beneficial than it is where district sales managers have a considerable freedom in conducting their business. Where there is a high degree of decentralization and only occasional contact made with the headquarters office, for example in a foreign

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[1] In very large organizations requiring several layers of supervision, the repetition of staff at each of these levels is likely to become particularly burdensome and expensive. Thus, in a sales organization with national, regional, and district offices there might be personnel, sales promotion, market research, and other staff units at each of the three levels. Sometimes this burden of staff can be reduced by what army men call the skip-level principle. Under this plan a full range of staff is provided only at the national and district offices, thereby skipping the regional office. The regional directors, under such a situation, would be primarily concerned with supervision and probably would spend most of their time travelling from one district office to the next. Close relationships between the national and the district staff might result in some by-passing of the regional executives, but if the latter is thought of primarily as a supervisory assistant to the chief executive, then it would be natural for him to rely upon the national staff for many administrative details.

subsidiary, there is little gained by insisting on parallel departmentation.

Parallel departmentation, then, like even strata, may add considerable strength to the organization structure. Considerable judgment is necessary in its application, however, because variation in local needs, additional executive expense, and infrequency of contacts with other offices may make it more troublesome than helpful.

Need for Balance

Organization structure is concerned with the total configuration of duties and relationships within an enterprise. The discussion in this and the preceding chapter has called attention to a number of aspects or fundamental characteristics of organization structure, but it is important that each of these points be considered in relation to the whole.

Basic departmentation, focus of operating responsibility, facilitating units, and structural arrangements provide a logical way to think about organization structure; but fixed conclusions can rarely be reached on any one aspect until the others have been carefully considered. The study of facilitating units may well lead to a modification of tentative conclusions regarding primary departmentation. Considerations of structural arrangement will be modified, or modify, plans for decentralizing operating responsibility. Frequently, a compromise has to be made on one point to secure what appear to be greater benefits in another direction. This usually requires much mental effort, discussion, and give and take of ideas; but out of this effort should come a balanced, workable structure.

The discussion of structure has been concerned with organization for an entire enterprise. The same type of approach may be taken to a department or a section within that enterprise. There are still questions of major operating units, extent of decentralization, auxiliary services necessary, and structural relationships. The large organization structure may limit the alternative arrangements that can be considered, and to that extent simplify the problem, but each executive who has more than a handful of people working for him will profit by taking an objective view of the way the efforts of his subordinates fit together to accomplish the objectives of his department or section.

And finally, serious error will result if the organization structure is

regarded as a fixed, static thing. To be sure, major changes in structure cannot be made every week since these usually involve modifications in attitudes, procedures, and work habits. On the other hand, organization structure is merely a social device to help accomplish certain objectives within a given situation. L. C. Marshall has observed that organization will vary with:

A. Size of group
B. Geographical dispersion of group
C. Character of objectives
D. Character of workers and equipment
E. Executive personnel available
F. Time available for performance
G. Types of delegations made
H. Contacts necessary with outsiders
I. Techniques and technologies available for use in operating the organization.[2]

Sometimes changes will occur in some one of these factors suddenly, and a marked change in structure will be necessary immediately. A gradual change in operating situation is more likely, and the administrator must decide when these "creeping changes" have become large enough to warrant all the headaches and inefficiencies that accompany a marked change in organization structure.

Preferably, the administrator keeps in the back of his mind an evolving concept of the structure best suited to his enterprise; and then seizes upon opportunities such as changes in the executive personnel, changes in physical processes, or expansion of new lines, to introduce new relationships in keeping with the general structure he has conceived.

Use of Organization Charts and Manuals

Organization charts and manuals are useful tools for presenting information regarding the administrative organization. They should not be regarded as essential, however; being mere tools of communication, they are available for the executive to use or not as he sees fit. In other words, they are in a very different category from departmentation, authority relationships, or organization structure, since these are inevitable and vital to any cooperative action. It will be sufficient for purposes of this discussion to note briefly the nature and the advantages and limitations of these tools.

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[2] *Groups and Their Administration*, American University, 1938, page 58.

Ways of describing organization

Organization charts. An organization chart is a graphic portrayal of certain aspects of the organization. Usually such charts show only the principal divisions or positions and the lines of formal authority. This is true, for example, of most of the organization charts in this book.

Charts are often limited to certain departments or relationships that it is desired to emphasize. So-called "functional" charts list the principal duties of each division or position within the appropriate box; manning charts list within the respective boxes the number and title of all positions in that unit, and sometimes list the names of present incumbents. Thus the content of any particular chart should be determined by the purpose for which it is designed.

The design of an organization chart can range from a mechanical drawing to an artistic creation. Mechanical charts consist of little more than lines drawn between standard-size boxes in which are written the appropriate titles. In the more artistic charts, attention is paid to balance, spacing, style of printing, and perhaps to the use of colors and the general impression created regarding dominant and subordinate departments and divisions. Such charts are more like advertising copy than an engineering blueprint.

There is considerable precedent for showing the senior executive at the top with subordinate levels below in pyramid fashion; sometimes the same arrangement is used going from left to right instead of from top down. Often when portraying organization structure comparable units are placed on the same line and the size and weight of the boxes and of the printing suggest relative status. However, there are no fixed rules, and the chart maker is still free to invent new ways of showing relationships.[3]

Generally speaking, then, organization charts should be thought of as a form of graphic presentation. Their use and their form should be determined by what is effective in getting ideas across to their audience. Since one of the basic principles of graphics is simplicity, it is

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[3] J. J. Furia has suggested a set of standardized symbols for organization charts, similar to the symbols used in motion or procedure analysis. Perhaps such symbols will be a useful shorthand for the technician, but they are far too stereotyped for general portrayal of organization. See J. J. Furia, "Making and Interpreting Functional Organization Charts," *Personnel*, January, 1944, pages 221-230; also C. S. Ascher, "Organization (Mercator's Projection)," *Public Administration Review*, Autumn, 1943, pages 360-364.

rarely desirable to attempt to show several different and complex relationships on a single chart. If such a role for charts appears to be a humble one, it can nevertheless be highly potent.

Titles. When designing an organization structure, the administrator often faces a question of what titles to use for the positions created. Certainly in business, and to a lesser extent in government and military organization, the use of titles varies so greatly that it is almost impossible to insist on fixed meanings. The Hoover Commission recommended the following hierarchy of titles for organizational units in the Federal Government, but they have not yet been universally adopted: department, service, bureau, division, branch, section, unit.

In a single company, however, titles may take on distinctive meanings, and it is desirable that they be used consistently, particularly when it is wished to identify comparable types of units or levels of status. If, in a given company, titles already have accepted meanings that fit into the contemplated organization structure, they certainly should be used; however, if the meanings of the words are vague or it is desired to indicate a change of concept, then some new title should be created. The list given in Figure 32 will suggest many possibilities for new titles.[4]

Position descriptions. As a part of organization analysis and clarification, it is often useful to prepare a written description of executive positions. Sometimes such position descriptions are quite brief, indicating little more than the channel of line authority and the principal duties of the position, as is true of the description of a director of engineering in Figure 33. At other times much more detailed descriptions are desired. These often include a brief statement of objectives or functions, followed by clearly phrased lists of duties, relationships, and authority. In the carefully prepared position description for a general manager of a marketing division, shown in Figure 34, the statements of duties and authority have been combined.

The choice of amount of detail to be included in position descriptions is determined, again, by the purpose they are to serve. Primary considerations will be stability of operations and relationships, the freedom which is delegated down the line to change organizational arrangements, the effect detailed planning may have on flexibility, the need for clarifying the organization in the minds of a number of

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[4] A variety of titles for technical positions in research are given in D. H. Voorhies, *The Coordination of Motives, Men and Money in Industrial Research*, Standard Oil Company of California, 1946, following page 52.

Titles for Executives and Technical Men

Titles frequently consist of two or three parts, and it is possible to make all sorts of permutations and combinations as occasion warrants.

A. Basic Titles

Director	Chief	Technologist
Administrator	Leader	Technician
Manager	Commissioner	Assistant
Executive	Chairman	Aide
President	Secretary	Associate
Officer	Specialist	(Specific function or occupation) accountant, engineer, chemist, expediter, treasurer, controller, statistician, etc., etc.
Superintendent	Consultant	
Supervisor	Expert	

B. Adjectives Denoting Rank

Deputy	General
Assistant	Chief
Associate	Principal
Vice	Special
Executive	Administrative
Staff	

C. Descriptive Adjectives

(Function)	(Product)	(Organization Unit)
Sales	Fuel Oil	Division
Production	Wax	Department
Control	Baked Bean	Bureau
etc.	etc.	Section
		Unit
(Geographic area)	(Subject matter)	Group
Denver	Refining Cost	Office
East Coast	Tariff	Project
City	Catalytic Cracking	Service
Plant X	etc.	Branch
etc.		Region
		District
		Zone
		Territory

FIGURE 32. Roster of Executive Titles.

Director of Engineering

The Director of Engineering, acting under the direction of the Production Manager, will have authority and responsibility for the following:

1. Machine development, which includes:
   a. developing new manufacturing processes, machines, and equipment, including the redesign of present machines for new products.
   b. selecting new equipment and dealing with vendors.
   c. prescribing plans for the installation of new equipment.
2. Labor productivity, which includes:
   a. working out wage incentive plans and setting standard piece rates.
   b. reducing accident and disease hazards.
3. Repairs and construction, which include:
   a. supervision of building and house repairs and maintaining fire protection facilities.
   b. planning and arranging for construction of new buildings.
   c. exercising functional supervision over the operation and maintenance of service facilities, including facilities for steam, electricity, and water.
4. Preparing budgets of expenses for engineering activities and making estimates of capital requirements for the mills.

He will be assisted by:

Industrial Engineer
Products Engineer
Plant Engineer

FIGURE 33. Illustration of a Brief Position Description.

different individuals, and the additional trouble of preparing more-detailed statements.

Organization manuals. Organization manuals are typically made up of organization charts and executive position descriptions for all or a large part of an enterprise. These documents are put together so that there may be a single, readily available source of information regarding the organization. Often the manual is in loose-leaf form so that individual pages may be easily revised and inserted.

Advantages and limitations of organization charts and manuals

Advantages. Often, the greatest benefits from organization documents come during their preparation. The executives themselves should, and usually do, participate in the process of drawing up the charts and writing the position descriptions; and this provides an

*General Manager, Marketing Division**

I. FUNCTION

As a line member of management, the General Manager of the Marketing Division is charged with advising the President, with conducting the sales, pricing, market research, product acceptance, and advertising activities of the Company, and with operating warehouses.

II. RESPONSIBILITIES AND AUTHORITY

Within the limits of his approved program and Company policies and control procedures, the General Manager of the Marketing Division is responsible for, and has commensurate authority to accomplish, the fulfillment of the duties set forth below. He may delegate to members of his Division appropriate portions of his responsibilities, together with proportionate authority for their fulfillment, but he may not delegate or relinquish his over-all responsibility for results nor any portion of his accountability.

A. Operations and Activities

1. He will formulate, or receive and recommend for approval, proposals for policies on sales, pricing, market research, product acceptance and advertising, will administer such policies when approved, and will conduct such activities for the Company.
2. He will establish and administer procedures pertaining to sales, pricing, market research, product acceptance, and advertising.
3. Based upon his studies of product acceptance, he will recommend new or altered products and the discontinuance of products.
4. He will solicit special accounts, will supervise sales involving deliveries in two or more Sales Districts, and will sign sales agreements covering such transactions.
5. He will recommend selection of firms or individuals as advertising representatives.
6. He will lease or purchase and operate such warehouses as are necessary to the accomplishment of his function.
7. He will conduct necessary buying activities.
8. He will approve adjustment of complaints involving amounts over $500 but not over $1,000, and will recommend approval of adjustments involving sums in excess of the latter amount.

B. Organization of His Division

1. He will recommend changes in the basic structure and complement of his Division.

FIGURE 34. Illustration of a Full Position Description.

* Taken from G. L. Hall, *The Management Guide*, Standard Oil Company of California, 1948, page 53. This publication contains an excellent discussion of the preparation and use of position descriptions, and many other examples following the same pattern.

C. Personnel of His Division

1. Having ascertained the availability of qualified talent from within the Company, he will hire personnel for, or appoint employees to, positions other than in management within the limits of his approved basic organization.
2. He will approve salary changes for personnel not subject to the provisions of the Fair Labor Standards Act who receive not over $350 per month and will recommend salary changes for such personnel receiving in excess of that amount.
3. He will approve wage changes for personnel subject to the provisions of the Fair Labor Standards Act.
4. He will recommend promotion, demotion, and release of personnel not subject to the provisions of the Fair Labor Standards Act.
5. He will approve promotion, demotion, and release of personnel subject to the provisions of the Fair Labor Standards Act.
6. He will approve vacations and personal leaves, except his own.
7. He will prepare necessary job and position descriptions.

D. Finances of His Division

1. He will prepare the annual budget.
2. He will administer funds allotted under the approved annual budget, or any approved extraordinary or capital expenditure program, or any appropriation.
3. He will approve payment from allotted funds of operating expenses and capital expenditures not in excess of $1,000, which are not covered by the approved budget, any approved expenditure program, or an appropriation.
4. He will recommend extraordinary or capital expenditure programs and appropriations.
5. He will administer fiscal procedures.
6. He will receive for review and recommendation the items of the annual budgets of other staff departments and the field divisions coming within his province.

III. RELATIONSHIPS

The General Manager of the Marketing Division will observe and conduct the following relationships. He may delegate portions of the conduct of such relationships to members of his Division, but may not delegate his over-all responsibility or accountability for their proper conduct.

FIGURE 34 (*Continued*).

A. The President

1. He is accountable to the President for the fulfillment of his function, responsibilities and authority, and relationships, and for their proper interpretation.
2. He will relieve the President of administrative detail as outlined in this Guide or as specified by the President.

B. General Manager, Manufacturing Division

1. He will co-ordinate his activities and co-operate with the General Manager of the Manufacturing Division on matters of mutual concern.

C. Department Managers

1. He will co-ordinate his efforts and co-operate with the Department Managers and will seek and accept functional guidance from them on matters within their respective provinces.

D. Advertising Agencies and Market Survey Services

1. He will conduct such relationships with advertising agencies and market survey services as are necessary to the accomplishment of his function.

E. Others

1. In the conduct of these relationships, he will establish and maintain those contacts necessary to the fulfillment of his function.
2. The President may specify, from time to time, other relationships to be conducted by him.

F. The Public

1. He will conduct such relationships outside of the Company as are necessary to the accomplishment of his function.

FIGURE 34. (*Continued*).

occasion to think objectively and critically about existing organizational arrangements. Fuzzy authority lines are clarified, overlapping interests are recognized, and some sort of *modus operandi* is agreed upon, major duties and responsibilities are re-emphasized, the occasion for needed changes in organization is provided, and there is a clarification in the minds of all the key people as to how the organization is expected to function. It will be noted that these benefits consist primarily of the attitudes and understandings of those who participate in the work; they exist in the minds of the men, and once the manual is finished it is of help to them largely as a check on their memories.

The organization manual with its charts and descriptions may be useful as a *training device.* When new employees, and particularly new executives, are brought into an organizational unit the manual provides a compact guide to "who does what." For most training purposes, a manual that is stated in broad terms is the more useful; one that contains a lot of detailed qualifications may well confuse the basic structure. In fact, if the manual is quite detailed it may be necessary to prepare a simplified version for training purposes.

Organization manuals sometimes serve as the *official and latest word* on all organizational issues. In such cases they are used primarily by executives as a reference to justify doing what they want to do. Clearly, if the manuals are to serve as the official dictum, they need to be detailed and specific, and, of course, they must be revised each time there is any change.

Limitations. One of the chief disadvantages of written organizational documents applies particularly to this last statement. They almost always are *hard to revise.* There is an unwarranted sanctity about the printed word and the printed chart, and the burden of proof is clearly upon him who would make a change. Even when there is mutual understanding as to needed modifications, it takes time to agree upon revised wording, obtain the necessary signatures, and get the new document issued. When people are busy on other matters there is a strong temptation to leave the document as it stands rather than negotiate a revision. The more detailed the document, the more frequently changes are likely to be needed. And if organizational change can be made only via revisions in the manual, there is almost certain to be delay.

Actually, the organization is a group of understandings and behavior patterns among the executives and other employees; it is a living, changing thing, and unless these official organization documents are flexible and adaptable they become at once a throttling influence and a source of confusion to those who are inclined to take "extralegal" action to get the job done. Therefore, in most situations it is preferable to think of position descriptions and charts as a picture of the organization at the time they were issued, and to expect that they will get out of date. They must be revised from time to time if they are to continue to serve a useful purpose, but organizational change need not await such revision, and frequent minor revisions can be avoided.

The preparation of charts and manuals sometimes creates friction

and bickering. Often, workable arrangements are accepted as long as they remain implicit, whereas spelling them out may involve loss of prestige. Unless there is real need for clarifying duties and relationships, then drawing up and circulating a document that causes heartaches or jealousies can have a negative rather than positive influence on the effectiveness of an organization. Consequently, the timing and the detail in which an organization is described should be decided in terms of the net effect it will have on the individuals concerned.

Organization manuals are *limited* in the picture they can give of the way operations are actually conducted. This is particularly true of organization charts, which are two-dimensional and, as suggested earlier, should attempt to portray only certain aspects of the organization. Some experienced administrators believe charts do more harm than they do good because they oversimplify really complex relationships. For example, charts give very little information about the degree of decentralization and they are oblivious to informal channels of communication. Even the more detailed position descriptions leave much unsaid.

These limitations should be acknowledged, and even emphasized, to the people that use the organization documents; but this is scarcely reason for discarding the tools entirely. A clear understanding of the organization is highly important; the lack of it may lead to a sense of confusion, frustration, or even injustice. Organization charts and position descriptions can contribute to this understanding, particularly as training devices. As we shall see in the chapters on executive personnel, position descriptions are also useful in connection with selection, development, and compensation.

In general, then, if organization charts and position descriptions are regarded as tools, and limited ones at that, they can be put to effective use. They should not, however, be permitted to become an end in themselves; and except as a deliberately created device for centralized control over organization, they should not become a source of inflexibility.

Conclusion of Part II

The administrator's task of *organizing* has now been considered from several angles. In the earlier chapters of this part of the book, key organization issues were analyzed as somewhat separate problems. Departmentation, service divisions, authority delegation, staff, com-

mittees, decentralization, boards of directors, and interest representation are all features of organization that often demand concentrated attention by themselves. On the other hand, it is also important to view the administrative organization as an integrated whole. Such a view has been taken in the last two chapters on organization structure, where the emphasis has been on making all the parts fit together into a balanced whole.

With plans laid, as indicated in Part I, and organization established, the manager must turn his attention to the remaining phases of administrative work—securing executive personnel and other resources, directing and coordinating, and, finally, controlling. These are the subjects of the remaining parts of the book.

While these major phases of management provide a practical framework for thinking about principles of administration, it is well to remind ourselves that in practice they are not so neatly divided. The executive, of necessity, moves back and forth from one phase to another in performing his daily tasks. Nevertheless, interrelated though administrative work may be in actual operation, it will be better understood by developing a clear picture of each phase. In line with this analytical approach, Part III concentrates on the selection, development, and compensation of executive personnel.

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Part III

EXECUTIVE PERSONNEL

Chapter 18. Determining Executive Personnel Needed
Chapter 19. Executive Appraisal and Selection
Chapter 20. Executive Development and Compensation

CHAPTER 18

DETERMINING EXECUTIVE PERSONNEL NEEDED

Responsibility for obtaining resources. Assembling resources is one of the major divisions of administrative work, along with planning, organizing, directing, and controlling. People to man the positions in the organization, funds to purchase the necessary materials and equipment and to provide working capital, physical facilities with which to work, all must be brought together for the use of the enterprise if it is to function.

The detailed work of purchasing raw materials or hiring most of the employees is, of course, usually delegated by the chief executive to his subordinates, and departmental managers often depend upon special divisions to assist or do this work on their behalf. In a sense, then, assembling resources is just another of the important operating activities, and in itself is not strictly administrative work. From a practical standpoint, however, every executive must give more or less attention to these matters; from the foreman to the president, each one has a responsibility for seeing that the people and the things needed for successful operations are at hand. There may be service divisions or staff assistants to help, but assembling resources is a task an executive can never fully delegate.

Problems of obtaining capital vary greatly from one enterprise to another. In government it usually involves getting appropriations from the legislature; eleemosynary institutions must appeal for private contributions to supplement their income; business firms deal with investors or short-term creditors, depending upon the sums needed and their financial structure. Facilities problems likewise show a great diversification. In both of these areas, and for materials and rank-and-file personnel, there may be specialized divisions within the enterprise that help carry the major burden of seeing that necessary resources are available when needed. Because of this variety of specialized problems, it is not feasible to include a discussion of raising capital and obtaining other assets in this general treatment of administration.

There is one area of great importance in every concern to which each executive should give personal attention, namely, the effective selection and development of his immediate subordinates and other key men under his general direction. This is a universal problem of highest significance to the enterprise and to society generally. These next three chapters will be devoted to its consideration.

Need for Attention

Cardinal importance of executive personnel

The vital need for capable executives if an enterprise is to be successful needs little emphasis. It is they who engage in the continuing process of planning, who mobilize and allocate resources, and who carry out the day-by-day direction and control of activities toward the company's objectives. As William B. Given, Jr., has observed, "More important than production genius, more important even than having sufficient money in the bank, are the right kind of people in making a successful company. Their team work, their enthusiasm, their all-out effort can build a sound business." [1]

Moreover, the task of executives is becoming more difficult. The increasing size of administrative units in business, government, army, and elsewhere has added to the complexity of administration. Also, the impact of world events and governmental action penetrates to almost every department and division. Employees are becoming less tractable, that is, their zone of acceptance has narrowed. All these things call for executives with great capacity and skill.

Distinctive aspects of executive personnel problems

The development of executive personnel cannot be tackled in the same way as replacing a machine that is broken down or handling a rush order from an important customer. Unless the distinctive aspects of an executive personnel program are recognized, the administrator is likely to find himself dissatisfied with results, if not in actual trouble. Important in this regard are the following.

A relatively *small number* of people are involved. Only in the larger companies is an executive directly concerned with the selection and development of as many as one hundred people, and often the number of present and potential executives will be more nearly a dozen. This

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[1] *Bottom-Up Management*, Harper & Brothers, 1949, page 87.

means that individual personalities play a dominant part in the action that can be taken. General policies and procedures will be helpful, but at each step they must be adapted to the specific individuals involved.

There are *close personal relationships* among the executives and the potential executives being considered. These men not only work together and go through trying experiences together, but often have social relationships outside of business. It would be dreary employment indeed if a man could not find among his business associates some of his best friends. These business and social relationships are often of some years' standing, and the men themselves expect them to continue. All this has a bearing on the objectivity and positiveness of action that should be expected. You don't treat a close associate of twenty years the same way you do a new salesman.

Executive personnel is primarily a *long-run* problem. Unless it is so regarded, constructive action will be difficult. It is possible to anticipate vacancies some time ahead, to appraise individuals before the day for appointing a new officer, and to map out individual development programs. The fact that it is long-run in nature has its disadvantages, however; it permits procrastination, and this is particularly likely to occur when something unpleasant needs to be said to an associate. Also, it is difficult to see quick results of effort. This may lead to discouragement or unwise curtailment of expenses during slack time.

To a considerable extent, both the costs and the results of executive personnel work are *intangible*. Even though a company's executives may be its most valuable asset, they cannot be recognized on its balance sheet because there is no clear way of measuring that value. As a result, the effort that is sometimes devoted to saving a few dollars that can be measured would often yield far greater returns if directed toward developing executive personnel.

These points explain at least in part why many enterprises have dealt with executive personnel on only a piecemeal basis. Executive development has, of course, been going on informally for centuries, and even before World War I the National Association of Corporate Schools had a committee on executive training.[2] However, the number of companies that have systematic and comprehensive executive personnel programs is surprisingly few. Alvin E. Dodd, honorary Presi-

[2] See E. B. Gowin, *The Selection and Training of the Business Executive*, The Macmillan Company, 1918.

dent of the American Management Association, states, "It continues, as it always has been, the No. 1 blind spot in management's thinking." [3] The contracted state of business during the depression of the 'thirties, and then the withdrawal of young men into the armed forces during World War II seriously interfered with the plans of many companies. Since the War, fortunately, a number of leading companies have made rapid strides in this field.

The feeling of the progressively managed company may be tersely summarized as follows: Executive personnel development is far too important to be left to chance. While many things remain to be learned about the nurturing of executives, there are measures that will substantially improve the selection and aid in the development of an outstanding corps of executives. A properly administered executive personnel program also has a definite supplemental value in improving morale through a demonstrated interest in helping a man better himself, and through an equitable means of selecting men for promotion.

A sound executive personnel program should accomplish the following:

1. Determine what executives are needed
2. Appraise present performance and select for promotion
3. Develop men to fill needs effectively
4. Compensate executives wisely.

The best known practical steps for accomplishing these ends are discussed in this chapter and the two following.

Deciding What Executives Are Needed

Three basic steps are involved in determining executive personnel requirements. These should be taken, regardless of how small the enterprise or informal the action may be.

1. Determine the duties of each position from a study of the desired organization structure.
2. Develop "man specifications" of the qualities and other characteristics needed by an executive to fill each position satisfactorily.
3. Analyze the age and ability of existing executives and, by comparison with requirements found in steps 1 and 2, develop plans for filling gaps and providing necessary replacements.

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[3] *Management News*, November, 1944.

The promotion program indicated in this last step cannot be completed until the selection and development processes have also received attention. Nevertheless, in any study of the need for executives, it is important to see that a vacancy anticipated for some years hence may require the immediate selection of one or more candidates so that they may acquire the necessary experience and training before the actual appointment must be made.

Organization analysis

Organization analysis provides the basis for intelligent steps toward the improvement of executive personnel. It is the simple matter of knowing what you want and what your objective is before you start trying to achieve it. Inasmuch as administrative organization has already been explored in the preceding section of this book, we need do little more here than note that a clear concept of organization structure, including some kind of descriptions of the duties of key positions, is assumed as an essential background for the measures discussed here and in the succeeding chapters.[4]

For purposes of executive personnel planning it is desirable to think in terms of the "ideal" organization structure—or, at least, of the structure as it will be several years hence—rather than of the present structure. The existing organization may be outmoded, and at least some of the positions will have been adapted more to individual personalities than to organization principles. Moreover, during the next few years the volume and nature of company activities may change, and personnel requirements should be adjusted to these changes insofar as they can be forecast with reasonable accuracy. In other words, continuing by means of replacements the existing corps of executives is not necessarily the most desirable thing. Rather, sights should be set on a group of men that will be best qualified to direct the activities of the company in the future.

Position descriptions, it may be noted in passing, are not always well adapted for the preparation of man specifications. They may be either long or very terse, as the illustrations in the preceding chapter show; or they may not be written at all, and exist only in the minds of the executives themselves. Also, the purpose for which a position

[4] Chapters 16 and 17, *Organization Structure*, summarize the steps necessary in organization analysis and also give samples of position descriptions, which are the connecting links between organization analysis and executive personnel programs. If the position descriptions reflect existing organization, some adjustment or allowance may be needed to tie in with the *future* organization pattern.

PAW–Organization Manual Plan No. 4.10

Program Division

Province

To formulate integrated, long-range program alternatives for meeting total essential world-wide petroleum requirements of the United States and its Allies, to best advantage within the limits of available resources, as a basis for determination of (a) PAW's long-range program objectives, (b) implementing plans and policies, (c) necessary construction programs, (d) operating schedules, and (e) allocations among Claimant Agencies.

Functions

In achieving this objective, the Program Division will perform the following functions:

1. Obtain from the Industry, Claimant Agencies and other sources authoritative estimates of essential domestic and foreign petroleum REQUIREMENTS for as far ahead as practicable, validating, adjusting and coordinating as necessary.
2. Obtain from the Operating Divisions, authoritative estimates of petroleum SUPPLIES and CAPACITIES that can be made available to meet these requirements, and their recommendations as to the most feasible means of augmenting supply and/or restricting uses, as necessary to avert shortages.
3. From this information, formulate alternative supply and allocation PROGRAMS to best meet essential needs within the limits of available resources, as a basis for determinations by the Operating and Petroleum Requirements Committees, respectively.
4. Follow the PROGRESS of PERFORMANCE against program commitments, advising the Directors concerned, the Chairmen of the Operating Committees and the Deputy Administrator, as to the significance of deviations from the standpoint of their program implications.
5. Formulate and recommend necessary PROGRAM ADJUSTMENTS and EXTENSIONS.
6. Make such SPECIAL STUDIES as to the overall petroleum supply situation as the Deputy Administrator or the Chairmen of the Operating or Petroleum Requirements Committees may request.

Relationships

1. The Program Director is responsible to the Deputy Petroleum ADMINISTRATOR.

FIGURE 35. Example of Position Description from an Organization Manual.

Plan No. 4.10
2

2. He will attend meetings of the Domestic and Foreign OPERATING COMMITTEES and will perform the principal staff work in support of their program determinations, as necessary.
3. He will attend meetings of the PETROLEUM REQUIREMENTS COMMITTEE, working closely with its Claimant members in determining the amount, validity and relative essentiality of their requirements and performing the principal staff work as a basis for the Committee's allocations.
4. He will work closely with the ARMY NAVY PETROLEUM BOARD and its staff in the interest of coordinating efforts and furthering the proper understanding of estimates and programs.
5. He will work closely with the ECONOMIC SUBCOMMITTEES of the Petroleum Industry War Council and the Foreign Operations Committee to the same end.
6. He will work closely with the OPERATING DIVISIONS concerned, relying upon them for authoritative estimates of supply and capacity availability, and for advice as to the feasibility of increasing supply or restricting uses. He will, in turn, make available to them such program information as will assist them in performing their respective functions under the Program.
7. In order to facilitate and assure proper coordination and integration of divisional plans and schedules with the overall program, each Operating Division will designate a representative whose primary assignment will be to function in a liaison capacity with the Program Director and under his functional supervision.
8. He will rely primarily upon the RESEARCH DIVISION to gather, maintain and supply such historical information as he may require in developing and following progress under the various programs, and to advise in their formulation. The Research Division will likewise designate a liaison representative to work with the Program Director.
9. He will call on OTHER DIVISIONS of PAW for such assistance as he may require.

Authority

All formal action by the Program Director will be taken through recommendation to the Chairmen of the Operating or Petroleum Requirements Committees or to the Deputy Administrator.

APPROVED: R. K. Davies

DATE: September 1, 1943

FIGURE 35 (*Continued*).

description has been written will affect its contents. For example, the position description in Figure 35 was written for an organization manual, and it emphasizes the functions and relationships of the unit as a whole rather than the particular part of the work done by the director, or any one individual within the division. Descriptions prepared for position evaluation and salary administration, on the other hand, are more concerned with what a particular individual does and the extent to which he exercises initiative and judgment. A position description for use in recruiting and placement may well include aspects common to all jobs in the company, whereas the evaluation description is more concerned with points that distinguish one job from another.

If proper allowance is made for these differences, however, any reasonably complete description can serve as the basis of the next step, man specifications.

Man specifications

The kind of an individual who can satisfactorily fill position X is indicated by what may be called "man specifications." Broadly considered, such specifications are of two types; they may be performance requirements, in that they stipulate what a man must be able to do satisfactorily to fill the position, or they may be more indirect, in that they stipulate the qualities, experience, and other characteristics it is believed an individual should possess in order to perform duties of the position satisfactorily.

Use performance requirements. Performance requirements, such as ability to supervise and inspire salesmen, ability to devise sales promotion campaigns, ability to budget expense and then live within the budget, and the like have the advantage of being simply and clearly related to the duties involved. If a man can meet these standards, he is qualified for the position; if a man fails to come up at least to the minimum standard on essential requirements, he is not satisfactory. Consequently, they should be used wherever practical.

The difficulty is, of course, in finding out whether a man has such abilities, particularly when he is being considered for promotion or is being recruited from a different operation. He often has had no opportunity to demonstrate his ability to perform certain tasks essential in the new position. Also, abilities change and often grow, and it is only fair to a man to recognize that what he did tolerably well five years ago he may be able to do creditably now. So, while performance

requirements can be very useful, it is often necessary to supplement these with a list of personal qualities that can be more readily observed.

Supplement with personal qualities. When we start to list the qualities a man must possess to fill adequately an executive position, we move into a foggy area. Although there has been considerable discussion and some investigation of the subject, there is as yet no agreement on what it takes to make a good executive—except that such things as a wart on the side of the nose or ears located far up on the head are *not* important. The difficulty may be illustrated by comparing the general leadership qualities listed by three careful students of the subject.

Chester I. Barnard has this to say about the active qualities of leaders:

> I shall list and discuss briefly five fundamental qualities, or characteristics of those who are leaders, in their order of importance as regarded for very *general* purposes . . .
>
> A. Vitality and endurance. We should not confuse these qualities with good health. There are many people of good health who have little or moderate vitality—energy, alertness, spring, vigilance, dynamic qualities—or endurance. . . .
> B. Decisiveness. . . . It depends upon a propensity or willingness to decide and a capacity to do so. . . .
> C. Persuasiveness. . . . The ability in an individual to persuade and a propensity to do so. Just what these qualities are defies description . . . but at least we may say that persuasiveness involves a *sense* or understanding of the point of view, the interest, and the conditions of those to be persuaded.
> D. Responsibility. I shall define responsibility as an emotional condition that gives an individual a sense of acute dissatisfaction because of failure to do what he feels he is morally bound to do, or because of doing what he thinks he is morally not bound to do, in particular concrete situations. . . .
> E. Intellectual capacity. I have intentionally relegated "brains" to fifth place. I thereby still make it important, but nevertheless subsidiary to physical capacity, decisiveness, persuasiveness, and responsibility.[5]

G. U. Cleeton and C. W. Mason have made an extensive review of investigations, subjective opinions, and objectives studies of the subject, and present the following "fairly accurate list of executive qualities": [6]

Health and energy
Drive
Ambition
Perseverance
Courage
Ability to assume and delegate responsibility
Openmindedness
Initiative
Organizing ability

[5] "The Nature of Leadership," *Human Factors in Management*, S. D. Hoslett, ed., Harper & Brothers, 1946, pages 23-26.
[6] *Executive Ability, Its Discovery and Development*, Antioch Press, 1946, Chapter 3.

Industry	Ability to analyze and evaluate
Interest	Social sensitiveness
Forcefulness	Ability to judge people
Technical knowledge	Ability to cooperate
Ability to make decisions	Leadership

The differences in these two lists are fairly typical of what one may expect if two people independently outline the qualities they believe a man should have to fill a given position satisfactorily. Clearly, this is still an area where judgment plays an important part. This being so, (1) one should anticipate some difference of opinion, and (2) it is wise to have several informed people consolidate their opinions and develop a pooled judgment as to the qualities needed in a particular situation.

Actually, close examination of the two preceding lists of qualities will reveal several similarities. Careful definition of terms will bring the lists even closer together, and Barnard would undoubtedly be willing to admit that some of the items in the Cleeton and Mason list were significant, though of lesser importance than the five he lists. In other words, if these men were faced with the task of preparing a list of qualities for use in selecting a particular executive, they could no doubt come to very substantial agreement. Experience indicates that the executives within a company, if they take time to explore what they have in mind and define their terms, can agree upon a list of qualities for a position, although they may continue to have some differences of opinion as to the emphasis one quality should be given as compared with another.

Such a list is of real practical value in selecting men for promotion or transfer. It serves as a guide in making what is inevitably a complex judgment. Without it an intuitive decision in which personal likes and dislikes play a large part is apt to be used. Even a more rational decision may be guided by only one or two factors, unless care is taken to build a balanced specification list.

Distinguish between innate and acquirable characteristics. One further useful step can be taken in preparing a list of qualities an executive should have for a given position. It pays to distinguish between those qualities that an executive must bring with him to the job and those that he can develop after he gets on the job. For our purposes the former may be called "innate" and the latter "acquired." [7]

[7] It does not matter here whether the innate qualities are inborn or developed during childhood. As long as they are characteristics that cannot be developed by an individual after he has been selected, they belong in the no-compromise category.

Richard Weil, Jr., president of Macy's, New York, emphasizes this distinction in his executive appraisal chart, shown in Figure 36. Of the six qualities to be considered in selecting an executive, three appear on the left half of the chart under the heading "Realm of no compromise"; these are character, intelligence, and intuition. The other three, experience, adaptability, and special skills, are shown on the right side under "Proper realm of compromise."

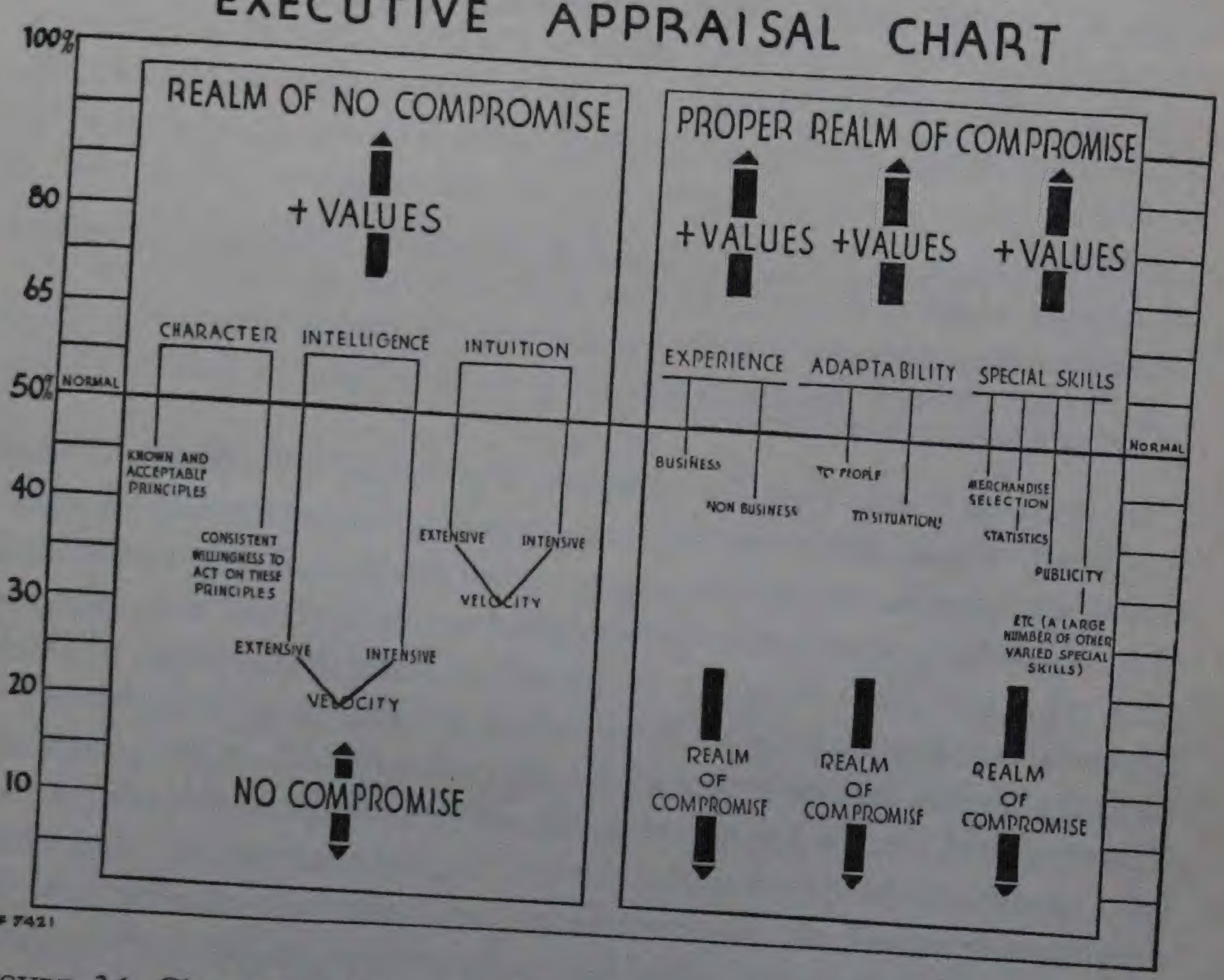

FIGURE 36. Chart Showing a Logical Approach to Executive Selection. Chart prepared and reproduced by the courtesy of Richard Weil, Jr.

Mr. Weil recognizes that an individual will possess each of the factors to a greater or lesser degree and that no single individual can be expected to have the maximum degree of all qualities. Consequently, he urges that a minimum degree of each of the innate factors be established as qualifications on which there is to be no compromise. There will be minimum satisfactory levels for each of the other qualities also, but if a candidate cannot be found who comes up to the minimum for all factors, clearly the compromise should be

made on a factor that can be developed after the job has been filled.[8]

The significance of the distinction between innate and acquired qualities is brought out in the following example. The senior credit man of a commercial bank, whose duties included investigating loan applications, investigating the quality of commercial paper, acting as an intermediary between the loaning officer and borrowing customer, maintaining a current check on the credit status of borrowing customers, and answering inquiries from customers and correspondent banks, was considered to need the following qualities:

Ability to make decisions
Alertness
Analytical ability
Initiative
Accuracy
Five to ten years' experience in statement analysis, investigation, and contact work
Complete knowledge of credit procedures of the bank
Ability to meet and deal with people
Oral and written expression.

In making a selection for this job, the bank's officers considered the first five qualities in the noncompromise group, whereas, if necessary, they would compromise on the other qualities. Without the kind of analysis here suggested, there might be a temptation to promote a man who had his full quota of experience and knowledge of bank procedure and got along well with people, even though he was deficient in ability to make decisions or in analytical ability. Such an action would live to haunt the bank officers, because the man probably never would develop the desired mental qualities; whereas had they compromised on the experience or diplomacy, the man might have been weak during the first few years on the job, but in the course of time could have overcome these handicaps.

The application of the same line of reasoning to quite a different kind of job may be seen in the case of a building engineer who was responsible for firing two steam boilers, maintaining the operation of several generators and water pumps, and making minor and emergency repairs to this equipment. Qualities required for this job included: alertness, resourcefulness, mechanical ability, physical strength to shovel coal and ashes, training in power plant operation, two years' experience in actual operation of power plant, and ability

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[8] For a fuller discussion of Mr. Weil's penetrating suggestions on executive selection see his book, *The Art of Practical Thinking*, Simon and Schuster, 1940, pages 154-171.

to do plumbing and electrical work. Here again, if compromise were necessary, it would have been better to take a man with the resourcefulness, alertness, and mechanical ability, even though shy one year of experience, than to sacrifice on, say, alertness.

Summary regarding specifications. For executive personnel planning it is necessary to "translate" the duties set forth on a position description into the specifications of a man needed to fill that position. Performance requirements are a direct and simple way to state such specifications, but, since these may be impractical to apply, it is often necessary to develop a list of personal qualities believed to be essential. Although such quality lists are based largely upon personal opinion, they do serve as useful guides in appraising individuals, which is inevitably a complex task. In this connection it is useful to distinguish between innate qualities and those that can be acquired after a man is selected. In the selection process heavier weight should be given to innate qualities, whereas in the training process attention should be focused on the latter group of qualities.

Promotion programs

Organization analysis and man specifications indicate the quality of executive personnel needed in an enterprise, but do not tell *how much* or *when*. To be effective, executive personnel planning must proceed into this quantitative phase.

Here again, it is difficult to be definite because the life span of individual executives is unknown, the chances of voluntary resignation are hard to estimate, the speed with which young executives will develop is problematical, and expansion or contraction in the total number of executives required is subject to all the hazards of general business forecasting. Nevertheless, as with any long-run investment, it is necessary to make the best plans possible and then modify and shift these in light of current developments. In this connection it is wise for a company to try to provide for the following:

1. Replacements for positions there is reason to believe will be vacated within the next few years,
2. "Runner-up" for each key position; that is, some place in the organization there should be an individual who could step into an unexpected vacancy without too much disruption in operations,
3. "Comers," or likely candidates for vacancies several years hence.

Replacements for anticipated vacancies. It is possible to anticipate some vacancies with a reasonable degree of accuracy. Companies with

a fixed retirement age know that certain positions will be vacated when the present incumbent reaches that age, if not before. Even if there are no formal retirement arrangements, the age of an executive provides some guide as to when a replacement may be needed.

On this basis alone some companies have been able to anticipate an acute executive turnover five to ten years hence. One concern that had expanded rapidly immediately after World War I and then remained stable in size, found that not only would its senior executives drop out within the next ten years, but also most of its junior executives and a substantial proportion of its department heads. This posed a serious problem of how younger men could be moved up through the ranks of department manager and be adequately prepared to step into the senior positions when the vacancies occurred.

Vacancies in executive positions arising from other causes can sometimes be predicted. Expansion of a new plant or a sales territory may be planned well in advance, and the need for additional executives can be recognized in this early planning stage. Occasionally the performance of some present executive is so unsatisfactory that plans must be made to transfer him to other work and this, again, will indicate the need of a replacement.

Vacancies created by retirement, expansion, or transfer normally will be filled by promotion. Then, the present positions of the men to be promoted will have to be filled, and, if these vacancies in turn are filled by still other promotions, there will be a third set of vacancies, and so on down the line. Thus, a vacancy near the top may create the need for replacing a whole series of executives.[9]

There are definite advantages to preparing *tentative* plans for filling these vacancies. The gaps in the experience and training of the men selected can be filled in, and there is time for further observation to confirm the tentative selection. Moreover, as noted, it is possible to anticipate and plan for the filling of vacancies created by a succession of promotions.

[9] If careful review of men within the company does not disclose satisfactory candidates for the anticipated vacancies, a search for good men outside the firm should be started. Promotion from within helps morale, simplifies transitions, and involves less risk in making the selection. It can lead to trouble, however, if unqualified men are promoted. Not only will the specific positions they take be inadequately filled, but other executives may relax in their efforts to prepare themselves for future promotion. The recommendations in Chapter 20 indicate how a company can help prepare a man for promotion, but this desire to help should in no way mean a willingness to promote unqualified men. Once a man is appointed to a position there are a variety of pressures not to remove him, so it is especially important that the right choice be made, even if this means bringing in a man from outside the company.

The tentative aspect of such plans deserves emphasis. Retirement of an executive may not come as soon as anticipated, economic conditions may postpone an expansion, careful observation may disclose that some individual in the chain is not prepared for promotion, thereby postponing the anticipated shift to fill his position. The need for men may come much sooner than expected, necessitating the transfer of experienced men into positions it had been expected to fill by younger men, and so forth. Not infrequently, it is desirable to think of alternatives and to plan on an "either-or basis."

Because of these necessarily tentative aspects of planning for executive personnel, as a general rule it is unwise to tell a man that he is slated for promotion. The move may not work out, through no fault of his own, and it is difficult to explain such situations without causing bitter disappointment. Tentative though the plans must be, they are a marked improvement over evading the issue and trusting that luck will provide the right men at the right time.

Recognizing the common tendency to procrastinate on executive personnel matters, as explained in the introductory section, it is often desirable to put the anticipated vacancies and the tentative plan to meet them down in black and white. This may be done in the form of replacement tables listing a contemplated chain of promotion when a withdrawal occurs, or it may be done more dramatically on an organization chart showing in color anticipated retirements and other shifts within a five-year or even a ten-year period.[10]

Such a chart, or even the tables, are almost sure to cause a stir among those who see them. Older executives sometimes dislike thinking of another person in their place. Other executives, perhaps unconsciously, will be thinking of modifications in the social structure that the contemplated shift will create. It is important that this interest created by the tables or charts be channelled into constructive actions toward the development of executives in keeping with the whole personnel program.

Runner-up for each position. Not all vacancies in executive positions can be anticipated, as is necessary for the promotion schedule just described. Premature death takes its toll; actuarial figures show that out of a typical group of men forty-five years of age, approximately one third will not live to see retirement at age sixty-five. An additional number will withdraw from active duty because of poor

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[10] See U. S. Naval Institute, *Personnel Administration at the Executive Level.*

health. Then, there will be some other executives who voluntarily resign to accept other business positions, to live in different locations, or for a variety of other personal reasons.

It is highly desirable to have in the enterprise a man qualified to step into an unexpected vacancy in any key post. These runners-up need not necessarily be an immediate assistant to the executive for whom they are considered a potential replacement. They may, for example, be managing a smaller though similar department, or be holding a staff position in the headquarters office. Moreover, the same man might be considered runner-up for two positions, neither of which was expected to be vacated in the near future. On the other hand, if the company is expanding and executive transfers are frequent, it may be advantageous to prepare a table showing both a first and a second replacement for each key executive position, as is done by the Esso Standard Oil Company.

The preparation of such a list of possible replacements serves several purposes in addition to that of a handy reference in the event an unexpected vacancy occurs. It provides a partial inventory of executive talent within the company, and the ease or difficulty of finding men to put on such a list will point to weak spots in the whole executive development program. Also, an examination of the adequacy of the preparation of runners-up for their respective posts will show the need for certain types of experience or other forms of individual development.

Any attempt to list runners-up for each of the key positions in a company is almost sure to raise the question of whether it is practical to try to have fully competent and trained men backing up each position. If executive turnover in the company is low and the present incumbent is relatively young, it may be hard to find a post where a fully qualified runner-up can have stimulating work that keeps him on his toes and also enables him to earn enough money to be glad to stay with the company.

Large concerns that have a number of positions calling for similar talent are more likely to be able to find suitable work for runners-up; in fact, in the alternative job the man may advance clear beyond the position for which he was once listed as a runner-up. A program for developing runners-up is not always practical, however, especially in small companies. Sometimes it is decided to run the risk of an unexpected loss and hope that a satisfactory replacement can be found outside the company in case one is needed. Occasionally companies

hire and train competent young men, and then help them find good positions in other firms if suitable openings do not develop within the company.

Even though a company may decide not to attempt to have a qualified runner-up for a certain position, the preparation of the suggested list is still desirable. It brings the needs into the open, and senior executives can then weigh the risks of leaving certain positions with no runner-up. Although no new people may be employed, the list will undoubtedly point to other needs that the top management may decide to meet internally. Whether the list be written or, where the number of individuals involved are few, merely exist in the heads of the senior officers, is not so important. Its preparation is a useful step in identifying the needs for executive-personnel development.

Comers. There is still a third step that should be taken in determining the need for executive development. There should be within each enterprise enough young men with potential executive ability to fill the ranks of junior executives five to ten years hence, and be the senior executives of the next generation.

For many years, when actual employment provided the only available business training, it was assumed that among the young boys who took the simplest jobs would be an adequate number of potential executives. Now, with the diversion of a large number of the more competent young men into specialized college courses, this flow up from the bottom is less reliable. Many companies recruit outstanding college graduates to increase this reservoir of potential executives.

The number of such comers, from all sources, deserves careful consideration. If they are too few in relation to the openings that develop, the latter will be filled inadequately, unless qualified persons are introduced from the outside, which tends to undermine morale. On the other hand, an oversupply of individuals with exceptional talent is both costly and undesirable. These men will become impatient waiting for an opening that really challenges them, and some will seek more rapid advancement elsewhere. The study of anticipated vacancies and experience with unexpected executive turnover, already discussed, should provide the basis for at least an informed guess on future needs for new executives. In addition, allowance should be made for some comers that don't develop as hoped and for resignations for any of a variety of reasons.

Experience of many companies shows that out of a group of men regarded as comers, less than 50 per cent may be available for appoint-

ment to executive positions five years later. Other companies which take greater pains with their selection and with providing openings as rapidly as the men develop have been able to reduce this turnover significantly. A practice found in a few companies, and more commonly in a single branch or department within a company, is aggressive action to find positions outside the department for comers, junior executives, or even senior executives who cannot be used effectively within the unit. Through this graduation process the intake of comers can be stepped up; it provides a continuing supply of potential executives and a lot of new ideas, but it is likely to be expensive unless the organization can be geared to make full use of its transient members and their fresh ideas.

Summary

Organization analysis, accompanied by specifications for men needed to fill the positions in the planned organization, provides a total picture of the quality of the executives needed. An examination of the adequacy of promotion plans, runners-up and comers, together with the individual executive appraisal described in the next chapter will indicate the number, type and time of additional talent needed. In this way, a sound basis for an executive development program will be provided. While particular forms and written documents may be helpful, the general method of analysis reflected in the steps outlined is much more important, and can be adapted to a wide range of enterprises.

References will be found at the end of Chapter 20.

Chapter 19

EXECUTIVE APPRAISAL AND SELECTION

The appraisal of executives serves several purposes in administration It provides a guide for the improvement of the work of the executive in his present position, it serves as a basis of promotion, and it is closely linked to incentives. These different purposes should be kept in mind, because they affect to some extent the process of appraisal that should be used.

Perhaps the most important difference in appraisals, and a potential source of confusion, is whether a man's present position, some future position, or an abstract notion of executive requirement should be used as a standard. If the man is being considered for promotion, then it is the requirements of the new position that are pertinent. On the other hand, if the purpose of the appraisal is to help decide what can be done to make the man more effective in his present job, or if it is to be used as a guide to "in-grade" salary increases, then the present job should set the standard. There are, of course, a number of common executive characteristics required in all such positions but there are also differences, and this means that any complete appraisal should be tailor-made for the particular position and purpose it is to serve.

The principal tools to use in sizing up the work and potential abilities of an executive are:

1. Group judgment
2. Periodic appraisals
3. Trial on a series of jobs
4. Psychological tests.

Group Judgment

One of the simplest but most important principles to follow in appraising an executive is to obtain the opinion of several individuals before arriving at a final conclusion. The opinion of the man who is his supervisor will, of course, carry great weight because he has been in

a position to observe closely the executive and his work. All of us, however, have likes and dislikes that often unconsciously influence our judgment. We may value a particular trait or action so highly that we overlook some significant weakness.

Consequently, it is desirable that the opinion of the supervisor be substantiated by that of others who have also had the opportunity to observe the man. The executive second above the one being rated, the manager of another department, or a senior staff man who has had frequent contact with him may be asked to join the immediate supervisor in the appraisal. Generally, it is desirable to secure their independent opinions first and then have a conference to iron out any differences; but this particular procedure is not nearly so important as the basic idea of obtaining group, rather than individual, judgment.

It is important that this group judgment be used when the really controlling decisions are made. For instance, if an executive is allowed to pick personally his immediate assistant and this assistant is the only one who receives the necessary training to take over the executive's position, it will probably be too late to use group judgment when the executive vacates the position. There will be only one adequately trained man available, and to select someone else for the post will be both embarrassing and expensive. Group judgment was needed at the time the runner-up was originally selected, and could also have been used later to make sure that the original selection was working out as anticipated.

As already noted, replacement tables and runner-up lists help to bring decisions such as this out into the open at a date when constructive action is still possible. It is then that group judgment should be insisted upon. Decisions regarding executive personnel are too vital to the success of an enterprise to be left entirely to a single individual.

Periodic Appraisals

Essential aspects of good executive appraisal include:

1. Judging performance against standards for the present position
2. Evaluating, preferably by ranking, qualities needed for promotion
3. Repeating such appraisals at regular intervals.

Although discussion of detailed procedures in connection with these points is unwarranted here. the nature and advantages of each should be noted.

Judging performance on present job

An executive personnel program, as already noted, should be concerned with improving performance of executives in their present position, as well as with providing competent individuals to fill vacancies. For the first of these purposes it is necessary to assess the current performance of each executive.

The performance of any executive can be appraised directly in terms of the objectives and the standards set for his division and department. These standards should have grown out of the organization analysis and company planning already discussed;[1] if they do not exist, the executive, his supervisor, and perhaps others directly concerned with the work had better develop some, because they are essential to all phases of administration.

The organization and management program of the Socony-Vacuum Oil Company includes this type of executive appraisal. The entire program is built around six major steps: (1) organization clarification, (2) standards of performance, (3) individual appraisal, (4) determination of help needed to bring performance up to standards, (5) source from which help can be obtained, (6) time schedule for closing gap.[2] It is significant to note that in the program the appraisal serves as a basis for planning the steps an executive should take to improve his operating performance. This emphasis on constructive action designed to help the individual is a feature that should be incorporated in all executive development programs.

It is desirable that the performance standards for each position be as objective as possible, since this simplifies the appraisal process and the results are readily accepted by the executive himself. Even more important, however, is the comprehensive view of the total job of the executive. In this connection the outline of management objectives shown in Figure 37 may be useful. Specific standards for each position will have to be filled in, but the outline serves as a reminder of the variety of the responsibilities of an executive.

The use of performance standards instead of executive qualities or characteristics for judging the current work of an executive is recommended for two reasons. First, there is no advantage in taking a

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[1] See especially Chapters 2, 16, and 17.

[2] L. A. Appley, *The Human Element in Personnel Management*, Society of Personnel Administration, Pamphlet 4, 1941, gives a good summary of the essential elements of this program.

General Objectives of Management *

I. PLANNING

Formulate well-considered objectives and plans—covering all operations, activities, and expenditures for each year, or longer, ahead—as a basis for authorization, a guide to achievement, and a measure of performance.

II. ORGANIZATION

Develop and maintain a sound and clear-cut plan of organization through which the executives can most easily and effectively direct and control activities.

III. EXECUTIVE PERSONNEL

Develop and administer a constructive personnel development program that will gradually ensure that all positions in the organization are filled by individuals fully qualified to meet the requirements of their respective positions.

IV. OUTPUT

Accomplish all duties and responsibilities fully, effectively, and harmoniously.

V. COSTS

Keep all costs and manpower at an economic minimum, consistent with essential purposes.

VI. BETTERMENT

Plan, stimulate, and develop improvement in methods, products, facilities, and other fields as applicable, keeping abreast of the best thought and practice throughout the industry; and ensure that outmoded procedures and uneconomical facilities are abandoned.

VII. EMPLOYEE RELATIONS

Make sure that all employees are accorded fair and equitable treatment, and that they are inspired to their best efforts.

FIGURE 37. General Guide for Appraising Executive Performance.

roundabout and uncertain path when a direct one is readily available. For example, there is little point in discussing a man's enthusiasm, initiative, or dependence upon his mother if in fact he is getting good results. To the extent that performance leaves something to be desired, then the pertinent question is what can be done to improve it—not whether the man's score on some rating scale is 74 or 68.[3] Likewise,

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* Adapted from a more derailed table prepared by Standard Oil Company of California.

[3] Perhaps the corrective action will include psychological diagnosis of the difficulty, but this calls for a more clinical approach than is possible with an over-all rating.

an appraisal of a man's performance relative to other executives is not particularly useful here, since he is already on the job and will remain there unless his performance is very unsatisfactory. Second, appraisal in terms of performance standards is useful year after year. After the executive and his supervisor have gone over a list of generalized executive qualities three or four times, the annual review loses its punch, whereas there is a recurring need for assessing the past year's results. There will, of course, be frequent occasions during the year to compare particular results against the program. The type of review urged here emphasizes overall performance, and is definitely personal in nature. It seeks to answer a question of vital interest to every executive, "how am I doing," and then uses the reply to help lay a constructive plan of individual improvement.

This sort of a review by a group of peers and subsequent discussions by the supervisor with the executive sometimes may take place without any special provision. Experience indicates, however, that such a review is apt to be done haphazardly, or more likely not at all, unless there is clear-cut recognition of the need and a definite schedule so that it becomes a normal and highly important piece of business.

Evaluating qualities for promotion

Appraising qualities of executives as a guide in making promotions differs from judging performance on present jobs. For instance, the appraisal must be made primarily in terms of personal qualities, since in this preliminary selection process demonstrated ability to perform duties of the higher position usually is lacking. Emphasis is shifted to innate qualities, and acceptable minimums may be set inasmuch as there normally are several candidates, at least when men outside the company are included. Also, with several possibilities for each vacancy, there arises a need to compare one individual with another. These differences should be taken into account in deciding how appraisals for promotion will be made.

Assemble information on outstanding qualities and deficiencies. Judging a man's capacity to serve in a position he has never filled is always difficult. For this reason it is desirable to asssemble several opinions and other information regarding the characteristics of each prospective candidate. One of the simplest steps in this direction is to ask several individuals to list *both* the most outstanding and the weakest characteristics of individuals being appraised. Although not com-

Executive Rating Form[*]

V. *What is this man's attitude toward the job and organization?*

(a)	(b)	(c)	(d)	(e)
Is enthusiastic about type of work; sold on organization.	Happy on job; is satisfied with organization.	Seems to be satisfied with job and organization.	Shows little interest in either job or organization.	Is disgruntled on job. Not in accord with policies or organization.

VIII. *Does this man make decisions?*

(a)	(b)	(c)	(d)	(e)
Makes timely decisions based on sound reasoning. Creates confidence in his ability.	Makes decisions based on sound reasoning.	Makes necessary decisions only on matters in his own sphere of activity.	Slow or reluctant to make decisions or makes them on matters for which he is not qualified.	Lacks self-confidence. Extremely reluctant to commit himself.

X. *Does this man use imagination; visualize future possibilities?*

(a)	(b)	(c)	(d)	(e)
Vivid imagination. Visualizes future possibilities and methods.	Active imagination; keeps a step ahead of current problems.	Satisfactory. Visualizes his own and others' situation.	Visualizes only immediate situation. Does not relate his activities to those of others.	Lacks imagination. Sees only the obvious.

FIGURE 38. Sample Rating Scale for Key Personnel.

[*] Based upon "The Technique of Rating Key Personnel," *Modern Management*, August, 1948—a research committee report from the Twin City Chapter of the Society for Advancement of Management. Other qualities or traits recommended in the report for rating executives are: I. Does he organize, plan and delegate his work? II. Does this man learn new methods and procedures? III. Does this man assume responsibility in keeping with good judgment? IV. Is this man thorough and reliable in work performance? Does he get results? VI. Does he identify good subordinates and train and develop them for increased responsibility? VII. Does this man cooperate with and obtain the cooperation of those above and below him? IX. Does this man analyze data critically and give the proper emphasis to each factor?

prehensive in coverage, this procedure often throws considerable light on the qualities of an individual.

A rating form, showing degrees of generally desired qualities—see Figure 38—may also be helpful. Such forms suggest a number of factors that should be considered, and their use promotes an objective rather than subjective evaluation. Danger lurks in the introduction of such forms, however, because all too often they are given such a prominent place in the appraisal process that the more fundamental aspects are neglected. Most forms do not focus attention on requirements for particular jobs; the scales often have different meanings for the various raters; and only occasionally are printed forms designed to serve as a basis for corrective action. With proper care these difficulties can be partially overcome, but the rating form should be regarded as supplementary aid—not an essential feature—in executive appraisal.

Compare candidates by ranking. When several individuals are being appraised at the same time there are marked advantages in following some sort of a ranking process for each quality considered by the company to be important.

In ranking, the proficiency of the several candidates is compared, and the candidates then listed from highest to lowest—or at least in percentile or quartile brackets. This avoids the confusion of one rater using the word good to mean the same thing that another rater does by excellent. It also catches the rater who wants to put everybody in the same grade; possibly all employees of his division are excellent, but they can't all be in the top percentages. Moreover, it stresses the difference between individuals, which is usually the significant thing in making selection for promotion.

The nature of such appraisal by ranking is indicated in the accompanying form used by the Navy for all officers (Figure 39). This form has been designed with great care, since these fitness reports play a critical part in determining whether the officer will be promoted or retired. The general ideas can be readily adopted by any enterprise having several potential candidates of approximately the same rank or grade. Once a number of qualities considered important in several likely jobs have been defined, then those making the appraisal can be asked to rank the men they know, either by comparing each man with the others or, at least, by ranking him in the upper, lower, or middle groups.

7. For each factor observed check the appropriate box to indicate how the officer compares with all others of the same rank whose professional abilities are known to you . . .

Rating Factors	*Not observed*	*Bottom 10%*	*Next 20%*	*Middle 40%*	*Next Top 20%*	*Top 10%*
A. SEA OR ADVANCE BASE DUTY *How does this officer compare in:*						
1. Standing deck watches underway?	☐	☐	☐	☐	☐	☐
2. Ability to command?	☐	☐	☐	☐	☐	☐
3. Performance in present duties?	☐	☐	☐	☐	☐	☐
4. Reactions during emergencies?	☐	☐	☐	☐	☐	☐
5. Performance at battle station?	☐	☐	☐	☐	☐	☐
B. INITIATIVE AND RESPONSIBILITY *How well does this officer:*						
1. Assume responsibility when specific instructions are lacking?	☐	☐	☐	☐	☐	☐
2. Give frank opinions when asked or volunteer them when necessary?	☐	☐	☐	☐	☐	☐
3. Follow through despite obstacles?	☐	☐	☐	☐	☐	☐
C. UNDERSTANDING AND SKILL *How well does this officer:*						
1. Grasp instructions given to him?	☐	☐	☐	☐	☐	☐
2. Use ideas and suggestions of others?	☐	☐	☐	☐	☐	☐
3. Rate in technical competence in his specialty?	☐	☐	☐	☐	☐	☐
D. LEADERSHIP *How well does this officer:*						
1. Inspire subordinates to work to the maximum of their capacity?	☐	☐	☐	☐	☐	☐
2. Effectively delegate responsibility?	☐	☐	☐	☐	☐	☐
3. Transmit orders, instructions and plans?	☐	☐	☐	☐	☐	☐
4. Organize his work and that of those under his command?	☐	☐	☐	☐	☐	☐
5. Maintain discipline among those under his command?	☐	☐	☐	☐	☐	☐
E. CONDUCT AND WORK HABITS *How does this officer compare in:*						
1. Ability to work with others?	☐	☐	☐	☐	☐	☐
2. Ability to adapt to changing needs?	☐	☐	☐	☐	☐	☐
3. Military conduct—bearing, dress, etc.?	☐	☐	☐	☐	☐	☐

8. Indicate your attitude toward having this officer under your command. Would you: ☐ Definitely not want him? ☐ Prefer not to have him? ☐ Be satisfied to have him? ☐ Be pleased to have him? ☐ Particularly desire him?

9. Considering all officers of the same rank whose professional abilities are known to you personally, would you promote him if ☐ 90% ☐ 70% ☐ 30%, ☐ 10%—were to be promoted?

10, 11 and 12 (These questions call for any commendable or adverse reports, comment on mental or moral weakness, clear and concise appraisal of officer.)

FIGURE 39. Excerpt from U.S. Navy Officer's Fitness Report.

Apply information to specific requirements. The ranking and reports on outstanding characteristics just described provide appraisal information of a general nature. When a man is being selected for a specific position it is, of course, necessary to concentrate on the particular qualities required. The general information already assembled should be useful, but additional evaluation of particular points will probably be needed.

The position analysis, already discussed, will have developed a number of qualities that must be possessed at least to a minimum degree, and the group making the selection must decide whether each candidate meets the essential requirements. Beyond this minimum, and for other desirable qualities, the ranking process just described can be used. The selection committee will then have before it a comparison of candidates in terms of each of the qualities and characteristics desired in the position. If time permits planned development and promotion, tentative selections can be reappraised at a later date and actual trial on related jobs may be arranged. In any event, a basis has been laid for more intelligent selection than would otherwise be possible.

The evaluation of individuals for promotion that has been outlined will undoubtedly bring to light needs for individual development. These should be brought to the attention of the individual concerned and used as guides in a personal development plan. Considerable tact may be required, however, because it is generally unwise to tell an individual he is in line for a position when there is a chance that the decision will be reversed; and a discussion of the strength and idiosyncrasies of other candidates should be avoided.

Regular appraisals

Executive appraisals should be repeated at annual or other suitable intervals. The recommendation that performance in the present job be appraised in terms of actual results by its very nature calls for a periodic review. In order to take account of individual development and to obtain additional opinions, since a single appraisal is likely to be influenced by recent success or failure, repeated evaluation for promotion is also desirable. In any matter as highly intangible and important as executive promotion, the improved accuracy that comes with additional observations is well worth the trouble.

A regular repetition of appraisals also increases their incentive value. If it is known by executives that their behavior and perform-

ance is being constantly observed and appropriate entries are being made periodically in the record, a continuing spur is provided. Also important for morale is regular and systematic discussion with the executive of how he is getting along and what he can do to improve himself. An annual (or more frequent) check-up reaffirms management's interest in a constructive executive personnel program.

Conclusion regarding periodic appraisals. Planned reviews have a vital part to play in any executive personnel program. They often are concerned with an evaluation of both a man's performance of his present duties and his potentialities for other jobs. Ratings, rankings, and a number of other devices have been suggested as aids in this process.

As a *minimum* there should be an annual appraisal consisting of (1) a discussion between the executive and his supervisor of the strong and weak points of the executive's performance during the past year, and a consideration of what should be done to overcome deficiencies and to prepare for more responsible positions to which the executive can reasonably aspire; and (2) the writing of memoranda to be placed in the personnel files by the man's supervisor, and perhaps by someone else familiar with his work, giving the type of information indicated by the following key questions:

1. What is the most outstanding thing the executive has done in the past year?
2. List, in order, his three strongest abilities or characteristics.
3. List, in order, his three greatest weaknesses or deficiencies.
4. What should be done to correct these weaknesses.
5. Does he want a transfer or promotion, to what position? Do you think he has potentialities for promotion, to what position?
6. Is he doing anything to qualify for such a promotion—or to improve his present performance?

This simple procedure, which is applicable to even the smallest enterprises, will encourage among all executives an analytical and constructive view toward personnel development, and over a period of time will build a record regarding executives far superior to the opinions that can be assembled when there is need to fill an actual vacancy.

In larger companies, rating and ranking forms, formal analysis of job requirements, evaluation committees, and similar procedures may be useful. They should be adapted to the needs of the particular company, however, and should not overshadow the basic thinking they are intended to aid.

Trial on a Series of Jobs

Use of executive appraisals, just described, for selection for promotion is by its nature an indirect approach. Qualities needed to fill the position are first decided upon, and then an attempt is made to appraise the extent to which an individual possesses these qualities. In both of these steps there is a very large element of personal judgment, and even the best techniques available are only crude measures. It is desirable, therefore, to supplement this approach whenever it is practical to do so. Actual trial on a series of jobs is the most reliable means for checking tentative selections based on appraisal.

Job rotation

Trial on a series of jobs can be illustrated by the experience of a manufacturing company that recognized that its president would have to be replaced in about five years. A careful appraisal of all candidates within the company indicated that the Director of Engineering would probably be the best man to move up into the top position. While the man appeared to have all the desirable qualities, most of his experience had been in the design and creative end of the business, and the directors of the company were not certain how effective he would be in getting out production on time at economical cost, and whether he would give balanced treatment to all departments.

Consequently, it was arranged to put him in charge of production for two years. After he had proved himself there he was made general manager of a subsidiary company, which had all types of activities from product assembly to sales and customer service. Here again his performance was quite satisfactory and, although the president's illness precluded still a third assignment that had been planned, the directors of the company were able to make the appointment with considerable assurance that they had the right man. Had the man proven to be inept and unhappy in either of these posts, probably both he and the directors would have agreed that he would be most successful back in the engineering department where there was no question as to his competence.

Trial on a series of jobs may be difficult to arrange. The vacancy to be filled must be anticipated long enough in advance to permit testing candidates in other jobs. Often more troublesome, positions in which the candidates can demonstrate desired ability must exist within the company and also be open for a short-run appointment.

This raises the question of what will be done with men currently in the positions and who will fill them after the men being tested are again transferred. Fortunately, this trial on a series of jobs can also be closely linked with the training of the executive, and, if job rotation and horizontal promotions are customarily used for training purposes, it will be much easier to find suitable posts in which a man's performance under fire can be watched.

Special assignments

A much more limited form of trial on the job can be obtained through temporary assignments. The candidate may be asked to fill a position during the vacation of the regular incumbent, but this has restricted value for selection purposes; the department or division will probably continue to operate on momentum, and the candidate will not be expected to introduce major changes while he is serving in a pinch-hitting capacity.

Special assignments, such as planning the introduction of a new product, negotiating the lease of a warehouse, or membership on an important trade-association committee, place the candidate in different working conditions and often throw some light on his strength and weakness. Sometimes it is practical to give a candidate greater freedom of action in his regular job and then observe how he handles himself and the results achieved when the initiative and authority are his. These more limited assignments may be used as an aid in making any selection, and they are particularly valuable when it is not practical to transfer the candidate to a series of positions where he can assume full responsibility for a considerable period of time.

To secure the full benefit of trial on a series of jobs, this device should be combined with periodic appraisal and group judgment. In other words, the performance of a candidate in these different situations should be observed by several individuals, who then join together in a reappraisal of the potentialities and development needs of the particular individual. There still remains a wide area of personal judgment, because the circumstances existing at the time the man is working in a particular position make a marked difference on the ease or difficulty of success, and it is still true that we are trying to forecast how the man will behave in a new position on the basis of his behavior in the past. Nevertheless, this very complexity of the selection process, along with its vital significance, makes the more sys-

tematic and analytical measures that have been described essential to sound administration.

Psychological Tests

Psychological tests are being used in a variety of ways in the selection and placement of employees. Unfortunately, only a limited amount of work has been done in the selection of first-line supervisors, and even less effort has been devoted to the selection of men for higher executive posts. Compared with some other fields in psychology, such as measurement in the field of education, testing for executive selection is an uncharted sea.

A variety of psychological tests are available to measure such things as interest, intelligence, personality or social intelligence, achievement in special fields of learning, and a number of physical skills. The application of these tests to executive personnel problems, however, encounters several difficulties. As we have already seen, there is no general agreement as to the qualities that are essential to executive success. In fact, it is likely that these vary from one situation to another. This makes it difficult for the psychologists to develop tests which have usefulness in a variety of companies and other enterprises. On the other hand, in single companies where it may be possible to agree upon desired qualities and characteristics, the number of successful and unsuccessful executives is usually too small a sample to validate a test.

Moreover, the interpretation of any tests which are given usually requires a technically trained psychologist who is also familiar with the company itself. Such a man can often come to as reliable conclusions from an analysis of personal history, performance records, and an interview as he can with tests. So, as someone has remarked, "the use of tests is dangerous without a good psychologist, and with one you don't need tests." These difficulties impose serious restrictions on the use of psychological tests for executive selection.

The selection of executives is something like picking a college football team. It is possible to develop a set of tests that could be given to every member of the squad. They would seek to measure such characteristics as weight, physical strength, endurance, reaction time, bodily coordination, pugnaciousness, emotional stability under pressure, competitive spirit, cooperativeness, intelligence, and perhaps

others. In actual practice, aside from a physical check-up which is used for negative rather than positive selection, such tests are not given. Instead, the coach simply sends men out on the field and watches them closely to see how each one plays. Now, if men for the football squad had to be selected the first day the freshmen arrived on the campus, a variety of tests might be extremely useful. since they would reveal much more than a brief interview. Fortunately for the coach he doesn't have to make the decision until there has been considerable opportunity for trial-on-the-job.

Executive selection, like that of a football team, can usually be based on observation of the candidates in actual performance. In those situations, such as recruitment of potential executives from colleges, where a considerable number of men are being considered and there is little opportunity to observe them at work before the selection is made, properly designed and administered psychological tests can be of help.[4] In a vast majority of cases, however, it is not necessary to resort to this indirect method. A reasonably complete record of the man's performance and of the periodic appraisals of those who work closely with him will provide a more reliable guide in making executive selection and placement. Psychological tests, at least in the present state of the art, have serious limitations and are more expensive.

Summary

The selection of executives normally takes place in successive stages. Younger men or "comers" are first identified as potential material. Then from this group one or more candidates for specific positions are chosen. Finally, when a vacancy does occur, some one individual is moved into it. The better the job selection at the earlier stages, the easier it is to find satisfactory people later. The comers and candidates for expected vacancies are, of course, being observed all the time; and, since a large part of the executive force will be regarded as candidates for still higher positions, selection should be a continuous process throughout the executive pyramid.

There are a number of basic procedures that, if conscientiously followed, will be of considerable help in making these selections. Group judgment should be made on all critical decisions. Executive selec-

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[4] See M. M. Mandel, "Research Findings in the Field of Supervisory and Executive Selection," *Personnel*, November, 1950, pages 215-216, for a summary of the types of tests that appear to have the most practical value.

tion is a highly important act involving many intangible considerations; and assembling the opinions of several informed individuals is a relatively simple way of avoiding the possibility of a costly mistake.

When selecting a man for a particular position, it is well to distinguish between the innate qualities and those that can be acquired after a man gets on the job. Then, to the extent that it is necessary to compromise on desirable characteristics in the candidate, the concessions may be concentrated on qualities or characteristics that can be developed.

As an aid in making specific selection, appraisals should be made periodically and a summary record sent to the personnel files along with other evidence of the man's performance. Finally, whenever possible, a man should be placed in a number of different positions where he may demonstrate abilities needed in some higher post.

It is significant to note that numerous forms, complicated ratings, and specialized tests are not necessarily part of the steps suggested. These devices may be useful in certain situations, but they are not essential. There is real danger that some psychological test or complex rating scheme will be given unwarranted emphasis and be regarded as a substitute for the more fundamental thinking that should be done. Instead, a few simple measures carefully and regularly followed are more likely to produce satisfactory results. These will require some hard work and unemotional thinking by almost all of the executives but they are well worth the price.

(References will be found at end of Chapter 20.)

Chapter 20

EXECUTIVE DEVELOPMENT AND COMPENSATION

Developing Executive Personnel

The two phases of an executive personnel program already discussed clear the way for well-directed attention to development of individual executives. The analysis of need for executive talent will indicate the positions that are to be filled by promotion, and the appraisal of individual executives, which is a necessary step in selection, will also show the type of development each man requires in order to be adequately prepared for his next position.

Some of the qualities needed must, of course, be regarded as innate, but there is another large group of desired characteristics that can be developed under favorable circumstances. It is to the creation of the needed reservoir of executive talent, as well as to the improvement of the performance of men in their present jobs, that development activities should be directed.

The most useful methods of executive development are:

1. Learning on the job,
2. Rotation among jobs,
3. Use of committees, conferences and courses,
4. Assistance in individual development.

Learning on the job

Learning on the job always has been, and will continue to be, the chief means of developing executives in an enterprise. This is because the experience of doing a thing is real, complete, and becomes imbedded in the emotional, mental, and unconscious reactions.

Some experiences, however, are more valuable than others, and the speed at which learning takes place on the job varies significantly. Consequently, if primary reliance is to be placed on learning on the job, it is important that it be done effectively. The hard-boiled realist who insists that one learns best by doing is actually practical only

when he sees to it that conditions surrounding the job are conducive to such learning.

Enthusiasm for learning on the job is vital. The speed and the nature of learning on the job depend largely upon the attitude of two individuals, the trainee and his boss, and the relationship between them. Unless the supervisor wants to develop his subordinate and has some appreciation of how to go about this, and the subordinate desires to learn and recognizes the kind of help he should try to get from his boss, the learning process is likely to be slow.

It is important, therefore, to create among the executives of the company the belief that training subordinates is an important part of their job. This belief can be cultivated by the example set by top executives themselves, clear-cut statements of the importance to be attached to executive development, recognition in periodic appraisals of executives of their success or failure in training young men, and some judicious missionary work on the part of the staff man guiding the executive-personnel program.

Given this belief in the desirability of learning on the job, it is then useful to discuss with those involved the ways and means of expediting the learning process. The training will deal primarily with two positions , the trainee's own job and that of his boss. What can be done to speed up and round out his learning of the duties and relationships of these two positions?

Need for delegation plus coaching. The executive or potential executive will learn most from his present job through a wise combination of delegation and coaching. One veteran executive states the idea briefly as "turn the man loose and then help him out of his difficulty." It is necessary, of course, to tell the man what is to be done and perhaps show him one way of doing it, but executive development will not be aided by insisting that he come to his supervisor for detailed instruction.

Instead, by putting the man on his own, he will have to think through the action to be taken and will be much more sensitive to the reasons for success or failure; he will also be developing self-confidence and a capacity for carrying responsibility. Since this is a specific application of decentralization, several of the limitations already described in Chapter 12 may apply here. Nevertheless, in almost every situation there may be more or less decentralization, and for executive development the more decentralization there is, the better.

The decentralization just recommended should not be accompanied

by the withdrawal of the supervisor from the activity. Instead, he should assume the role of a coach who observes closely what is going on and makes suggestions of how performance may be improved. For this coaching to be most effective, there should be developed what M. L. Mace calls a "climate of confidence." [1] The man should feel free to ask for help and admit difficulties without a fear of being severely censored. The supervisor, just as are the truly great athletic coaches, should be a readily available source of friendly, constructive criticism.

The periodic appraisals of individual performance, already described, provide an occasion for an over-all review of performance, but the counselling on specific actions should be much more frequent and directly related to current problems. Also, the coach should take time to explain why he gives the advice he does so that the trainee may apply the same ideas to a variety of situations. Coaching such as has been suggested can greatly enrich the experience an executive gets while performing decentralized tasks.

Shadowbox the boss's job. The developing executive should also learn a lot about his supervisor's job. This can be done best by having the employee figure out what he would do if he were in his chief's shoes. Initially the executive should share with the trainee facts regarding the problems he faces, the variety of angles that must be considered, and the reasons for the decision he makes. Later, the subordinate should be asked, "How would you handle this question if you were in my position?" "What would you do if you owned the business?" The supervisor can then explain why he does or does not follow the recommended course. Finally, it may be practical from time to time actually to delegate part of the work in the form of special assignments.

As the younger man learns at least to shadowbox the senior position, he broadens his perspective and he comes to his chief with reasonable recommendations instead of problems or unworkable ideas. While this type of training is particularly important for a man who is slated to replace his chief, it will contribute to the development of almost any executive and is usually well worth the additional burden it places upon the supervising executive.

Summary. Experience on the job is a great teacher, yet it is not enough to assign a man to a position for a year or two and hope that

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[1] *The Growth and Development of Executives*, Graduate School of Business Administration, Harvard University, 1950, Chapter 6.

he learns. The performance of duties in a manner already prescribed, particularly if they have to be repeated over and over again, does not contribute much to a man's ability. On the other hand, when he is delegated authority and encouraged to use his own initiative, when he receives the benefits of good coaching, and when he is encouraged to at least shadowbox his boss's job, learning on the job becomes an exhilarating and highly significant process in the development of the executive.

Rotation among jobs

Most executive positions call for a broader view and more varied experience than can be provided in any single job down the line. Consequently, learning on the job should be coupled with a scheme for rotation among different jobs. This rotation for training purposes should, of course, be incorporated into the plans for replacements as reflected in "promotion tables."

Cook's Tours are not enough. The job progression being discussed here is quite different from the Cook's Tours often provided for college men just entering a company. These brief tours, where a man spends only a few weeks in each department, have considerable value as a means of orientation and providing a bird's eye view of the entire operation. The trainee may not understand the intricacies of the work of each department, but at least he can say, "I've been there and I've seen it." Job rotation in the executive ranks is a different matter. Here a man often stays on a job for several years and he must earn his salt, and his spurs, as he goes along.

Job progression that rounds out experience. Executive development through job rotation may be illustrated by the experience of an executive in a company operating a chain of dry goods stores. Phil Simon was spotted as a comer while still in his twenties; his outstanding performance, first as a salesman and then as a section manager, marked him as a potential store executive. He was first transferred to a fairly small store, the manager of which was a demon on watching expenses. After three years under this man, Phil knew how to balance work loads, get the lights turned out, save wastage of boxes and other wrapping materials, and keep repair costs under control.

He was then made promotion and display manager under a man who had a real flair for catching the public's interests. No holiday, Boy Scout Week, or public event went unnoticed in that store's pro-

motion. This involved many intangibles, but by the end of two years Phil was coming up with ideas as often as his chief.

Phil's next assignment was as assistant merchandise manager in one of the largest outlets of the company. This required learning the quality characteristics, customer preference, cost, and pricing of a large variety of goods. At the end of five years he was still learning, but he was then transferred to be assistant general manager of a medium-sized store, where he gained experience in coordination of all the activities of the store.

Two years later he was made manager of one of the company's smaller outlets. During his four years here he demonstrated clearly that he had been learning in each of the jobs he had held and was competent to give over-all direction to an entire store. At the age of 44 he was again promoted, this time to be general manager of one of the largest stores in the chain.

Select good training spots. Some jobs are better training posts than others, and job rotation works best when men can be moved in and out of the positions that provide good experience. One of the key factors in a good training spot is the attitude and the knack of the supervisor. Also, positions where a man carries full operating responsibility are good training posts, particularly if a variety of activities are involved; such positions are likely to be found in operating branches or subsidiary plants.

If it is not practical to put a young man in a key operating post, either because there are few such positions within the company or because they are already filled by competent individuals, then a position as general assistant to the key operating man may be used for training purposes. Staff positions often provide excellent training spots, because a man has opportunity to come in contact with many operating departments; he also gets experience in developing new plans and in securing voluntary acceptance of such plans.

After these good training spots have been located, care should be taken that they do not get filled with people who, for one reason or another, are not promotable material.

Compensate for lack of experience. It should be recognized that job rotation often involves putting a man in a position for which he has had comparatively little previous experience. In fact, this may be the very reason why the man has been transferred to that position. This means that there may be an initial loss of efficiency at the time the transfer is made. To keep this loss at a minimum, the positions above

and below the one just being filled should be occupied by experienced individuals. Many a technical sergeant in the army has had to bolster a second lieutenant while the latter was still learning what made things tick.

This lack of background is likely to be more serious when the man is transferred from one major function to another, for example, from production to sales or finance, because of the wide divergence of skills required. To attempt to provide interdepartmental experience while a man is still young and need not occupy key positions is only a partial answer; if done while he can perform only routine work, the trainee may fail to have an opportunity to gain knowledge of broad issues, and often he becomes familiar only with one section of a large department. Another way to provide breadth of experience is to assign a man to a staff position that requires close contact or actual work in other departments but does not call for technical knowledge.

The movement of men in and out of jobs is not all a net loss, however. The men being rotated are competent individuals, and will bring a fresh viewpoint to each job. They will have new ideas and will be anxious to make improvements, whereas an executive who has been in a position for some period of time is likely to find himself defending the changes he has already made, and hence will be less progressive. Here again there is need for keeping a balance between the experienced hand and the new blood that has been introduced into a section or a department.

Need for tradition of horizontal promotion. The effect of rotating men among different jobs on the morale of the other executives should also be carefully watched. One of the most likely sources of bad feeling will be among the junior executives who aspired to move up into their boss's position, and then find someone from another department moved into the coveted spot.

Where horizontal promotions are rare, this feeling may be strong, but once job rotation has been well established as a company practice it need cause no serious difficulty. The executives will then realize that the chances of vertical promotion are small, and that the real opportunity lies in moving about and extending one's general knowledge and background. It can be pointed out that such a system actually increases the opportunities for the capable men to get ahead, because they do not have to wait until the one job immediately ahead of them is vacated.

Job rotation can, in fact, be a positive aid in dealing with some types

of executive morale problems. Any time one of a group of coordinate executives is selected to become their supervisor, there may be some disappointment and occasionally some bitterness. At times it is desired to take an outstanding young man clear around his immediate superior, and this is even more difficult to accomplish gracefully. Such difficulties as these are substantially eased when horizontal promotion becomes common practice. Normally a man who is to be promoted will be transferred to a staff division or to some other department. Then, if at some later date he comes back to be supervisor over his former colleagues, any invidious distinction between the one chosen and those left behind is much less apparent. Particularly when job rotation is coupled with periodic appraisal and individual counsel as recommended in the preceding chapter, it is possible to have considerable flexibility in the use of executives and keep their morale high at the same time.

Committees, conferences, and company courses

Although chief reliance for executive development must be placed on the learning that occurs in a series of jobs, there are occasions when committees, conferences, or company courses can be used to supplement these primary measures. A variety of possibilities will be mentioned, but it should be kept in mind that rarely will a company use more than one or two of these at any single time; and they always serve as a secondary part in any executive development program.

Committees. Committees often provide an executive an opportunity to learn something of the problems and the point of view of men in other departments. Committee recommendations should reflect broader considerations than are likely to come from any one of its members; men have to explain and defend their own ideas. All this is good training for the growing executive.

For reasons pointed out in Chapter 13, committees are rarely established for training purposes alone, but, if there is a sound operating reason for establishing a committee, its training possibilities should not be overlooked. Members of the committee can be appointed with an eye to executive development, as well as to the direct results of the committee's deliberations.

Conferences. Special conferences on particular subjects, such as auditing, collective bargaining, sales training, cost accounting, and the like may be held by larger companies having a number of professional

or technical men working in the same area. Typically, the conferences last for two or three days and provide an opportunity for stimulating discussion on technical problems and for the exchange of ideas and experience. Here we have a device intended to improve competence in a specialty, whereas other measures are often intended to broaden the executive's viewpoint.

Company courses. Courses, on any of a wide variety of subjects, deserve consideration in building an executive personnel program. Such courses may deal with general administration, control and motivation, or economics of the industry, or with specific techniques. A Training-Within-Industry course in job-instructor training is an example of the latter type of course.

There are two serious limitations on the use of company courses. One is the purely mechanical problem of finding a subject and a time when enough executives can meet together to make the course worth while. The second is concerned with the way the course is conducted. Experience demonstrates that a series of lectures makes so little dent in executives' behavior that it is rarely worth while. Active mental participation and the relating of the subject matter to one's own personal experience and problems are necessary if the course is to influence behavior rather than merely impart information. This means that the number taking the course must be kept small, and a discussion or conference method employed.

For particular purposes, under favorable circumstances, courses may be very useful. In general, however, company courses are one of the few tools of executive development that have probably been used too much rather than too little.

Training woven into operations. The most effective use of committees and company conferences is often achieved by combining executive development with meeting some other need of the company. For instance, the Socony Vacuum Oil Company "organization and management program" calls for a series of conferences at which the organization is clarified and the standards of performance for each position are established. This is then followed up by individual appraisal and a continuing plan for improving executive performance. The initial conferences have great training value, but at the same time they serve other significant purposes. Likewise, the junior board of directors of McCormick and Company, Inc., develops new ideas and builds morale; at the same time the use of such a board provides dis-

tinctive executive training.[2] Here again we see that executive development can be woven into the fabric of company operations.

Assistance in individual development

In the earlier discussion of appraisal of an executive's performance, the need for following through with a constructive program for individual improvement was stressed. This is an essential and crucial aspect of executive development.

Constructive advice. In addition to the training a man can receive within the company, his development can often be assisted by outside activities. For example, one man whose primary background has been engineering may be advised to join in church, school, or other community affairs in order to develop leadership experience; another man, weak in the use of financial figures, needs an evening accounting course; still another executive finds difficulty in expressing himself before a group of people, and he needs special work in public speaking; perhaps another individual is having difficulty with his personal finance problems, and he needs advice and help in that regard; often the suggestion of the right book to read is a real help.

Advice on the correction or development of certain personal traits, if given wisely, may make a marked difference in a man's effectiveness. The use of psychiatrists to overcome certain personal quirks, which almost all of us have, is becoming more common among business men. Sometimes a plan for improvement of personal health is needed. This list can be continued indefinitely, because these are individual development needs and vary from person to person. The responsibility for their correction must rest largely with the individuals themselves, but a man's supervisor, a senior officer, or personnel counsellor can often help with suggestions and with direct assistance in certain areas.

Use of universities and professional societies. Probably the most common form of assistance in individual development is in the support of formal educational activities. Some companies will pay the tuition for any evening school course related to a man's work. Others map out a specific educational program and then make it possible for him to attend the necessary classes. An increasing number of executives are attending seminars and university-sponsored conferences. Less frequently, companies relieve executives for several weeks and pay the expense of executive development programs now being offered by several universities.

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[2] See C. P. McCormick, *Multiple Management*, Harper & Brothers, 1938.

Also of growing importance is the participation of company executives in professional societies and trade association work. One of the outstanding characteristics of American business practice is the freedom with which executives discuss their problems with each other and with which they exchange know-how. This contact with executives in other companies is particularly important for the company that seeks to be abreast of the latest developments and also follows a policy of promotion from within.

Summary: executive development. Executive development should be done on an individual basis and adapted to the need of the particular person. Periodic appraisals of performance and of qualifications for promotion will indicate the areas in which each executive needs improvement, and this should be used in drawing up a personal development plan for each man.

Primary reliance should be placed on learning on the job. To make this most effective, authority should be decentralized as rapidly as practical and the supervising executive should then devote his efforts to being a good coach. In addition to mastery of his own job, any executive slated for future promotion should learn as much as he can about his boss's job.

A second major part of executive development, and one closely connected with learning on the job, should be rotation of executives among a series of jobs so that they obtain a balanced experience. Such rotation usually required careful advance planning of executive transfers, and if properly handled can contribute to incentive and morale, as well as to training.

A third major division of the development program should be assistance with outside means of improving individual capacity. Although activities in professional societies and college courses are important in this outside training, the possible measures considered should be as heterogeneous as are the factors contributing to individual effectiveness.

Company courses, conferences, and committees should be regarded as supplementary aids to executive development, and not as easy and complete answers to a complex problem. If these activities are undertaken exclusively for training purposes, care is needed in defining the purpose and selecting the procedure to be followed. Success with conferences and committees is more likely to result if they serve a number of other practical purposes in addition to executive training.

Executive development should take place, to a large degree, as a

normal and integral part of daily operations. It requires careful planning, but review of the foregoing suggestions will indicate that most of the learning and growing can best be associated with actual experience.

Executive Compensation

The setting of executive compensation is always a ticklish problem. It inevitably depends largely upon personal judgment, and it is charged with a lot of emotional reactions. Although financial remuneration is only one of the incentives to which executives respond, its proper handling is vital to good executive morale.

There are many technical points connected with executive compensation, and personal factors often complicate the picture. However, these should not be permitted to obscure a basically sound and reasonable approach to the salary structure for the entire enterprise. In the following paragraphs attention will be focused on these basic considerations, assuming that adjustments in the general salary structure will be made to fit individual needs. Building a sound salary structure will first be considered, and then brief attention will be given to bonuses, stock options, and other special arrangements for compensation.

Building a sound salary structure

The salaries paid to different executives in an enterprise often fall into a pattern that looks mysterious or at least the result of mere historical accident. The spread between the production manager and sales manager, for example, is often as hard to explain as the reason why in one year Joe DiMaggio got $100,000 from the Yankees while his brother received only $27,000 from the Red Sox, and the highest paid man on the Dodgers got $35,000. It is not so much that such differences in salaries exist but more a matter of whether the differences rest on some reasonable basis.

A sound salary structure should provide (1) good internal alignment, that is, a reasonable balance and relationship among the salaries of the executives within the enterprise; and (2) practical external alignment, that is, a relationship of company salaries to those paid by other firms that enables the company to attract and retain capable executives and at the same time keeps its total salary expense at competitive levels. Moreover, the design and administration of the structure must be sufficiently flexible to recognize differences in the con-

tributions of individual executives. These general requirements might well be applied to the compensation of all employees, although it will be evident that special considerations enter into the payment of unionized craftsmen as contrasted with executives.

In setting salaries that conform to these requirements, it is well to distinguish between a reasonable salary for a given position and variations above or below this amount that reflect how well the man in that position performs the various duties. By first concentrating on the value of a position, regardless of the incumbent, the problem can be reduced to more manageable terms. After this is done, adjustment can be made for the quality of individual performance.

Approximate salaries for each position in the organization can be established through the following steps:

1. Decide upon the relative importance and difficulty of the executive positions.
2. Decide how the general salary level of the company should compare with outside salaries.
3. Provide a salary range for each position to allow for differences in individual performance.

Alignment of positions. The relative status of executive positions within an enterprise can be decided upon in several ways. The nature of each position will presumably have already been defined in the organization analysis. The top executives, perhaps including some members of the board of directors, will have a general sense of the relative importance of the positions and will, after some discussion, be able to rank the jobs and then decide whether there is a narrow or wide spread between those in adjacent places.

A more systematic procedure is to make a separate analysis and ranking for each of several factors that are considered important by the management in the operation of the enterprise. Such "compensable characteristics" might well include minimum experience necessary for a position, mental and educational requirements, ability to contact and influence people, imagination and creativeness needed, responsibility for people and their work, and responsibility for financial decisions. The separate ranking for each of such factors can then be added together to obtain a composite score for each position. If a large number of positions are involved, some of the more refined techniques used in job evaluation can be applied here, but if only relatively few positions are being studied, it is usually possible to reach a consensus on their relative status along some numerical scale without

resorting to an elaborate rating technique. Whatever the procedure followed, the judgment cannot be precise because of the many intangibles that enter into executive work.

Relating salary level to rates paid outside. Comparing company salaries to those paid by other firms again presents some difficulties inherent in administration of executive compensation. Differences in the size and nature of company activities and in the administrative organization make it difficult to measure "average market price" or typical salary paid for a given type of work.

It is usually possible, however, to establish approximate figures for some positions at the lower end of the scale, such as auditors, chief accountants, branch managers, and other jobs where considerable similarity of duties exists in several companies in the same industry. And, at the other end of the scale, there is a sort of similarity between the duties of the chief executive of comparable sized firms in the same industry. Care is necessary in interpreting data for the top company executive, but as a rule some central tendency will be found in the statistics on this point.[3] Possibly, comparable data for other positions will be available, and if so it should be used; however, if values can be established for both ends of the scale, it will be possible to slot in the others by interpolation. The available salary information can be clearly summarized on a graph by using company evaluations of the positions along the horizontal scale, as is done in Figure 40.

After the data on outside salaries are assembled, it is then necessary for the company to decide whether it wishes to pay more, the same, or less than the typical salaries of other firms. This decision will depend upon a variety of factors, such as the profitability of the company, its financial structure and the attitude of its owners, cost of living in the locations and social strata where the executives live, supplementary benefits offered, and nonfinancial incentives provided by the company. Once this decision is made it will be possible to set the approximate salary for the top officer and for several of the lower officers, and then draw a salary curve for the company officers. Such a salary curve is shown in Figure 40.[4]

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[3] See, A. Patton, "Current Practices in Executive Compensation," *Harvard Business Review*, January, 1951, pages 56-64.

[4] In this connection it should be remembered that salaries normally step up by a percentage, rather than by constant amounts. Sometimes the valuation scale provides for this percentage increase in pay, in which case the company salary curve should theoretically be a straight line.

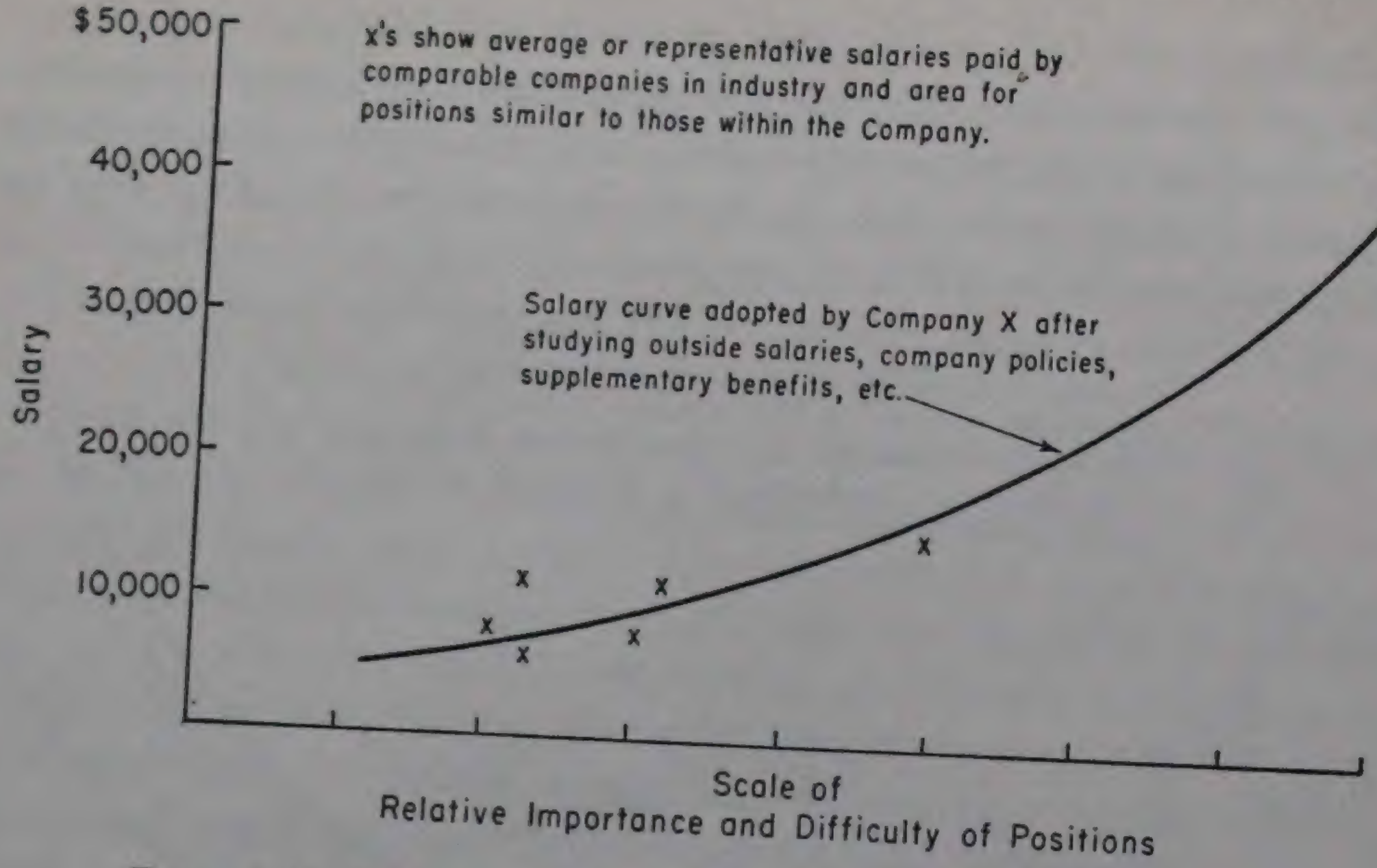

FIGURE 40. Relation of Salary Curve to Outside Salaries.

Providing for differences in performance. It would be a mistake to set just one salary for each position, because this would fail to provide for differences in individual performance. As an individual gains experience in a position, the quality of his work typically improves and there should be some recognition of this fact in his salary. Also, as a result of promotion and transfer a given position will be filled by several different individuals, and the work of one executive may be either better or worse than that of the others. Consequently, it is desirable to establish a salary range for each position in order to provide for this difference of individual performance.

The starting rate will normally be significantly below the company salary curve, whereas the rate for exceptional performance will be correspondingly above the salary curve. This range should be wider than that typically provided for nonexecutive positions, because of the wide difference that there can be in the quality of individual performance. Usually the top of the range should be 35 per cent to 50 per cent above the bottom.

Example of salary structure. A salary structure, including the features just described, is shown in Figure 41. First the various executive positions were compared one with the other and placed along the lower scale, and then the general level of salaries was established by top management after available evidence had been obtained on salaries

obtained outside for comparable positions. Finally, minimum and maximum curves were set, with the maximum 50 per cent above the minimum. Once an executive position has been evaluated and placed along the bottom scale, the minimum and maximum salary can be quickly and easily determined.

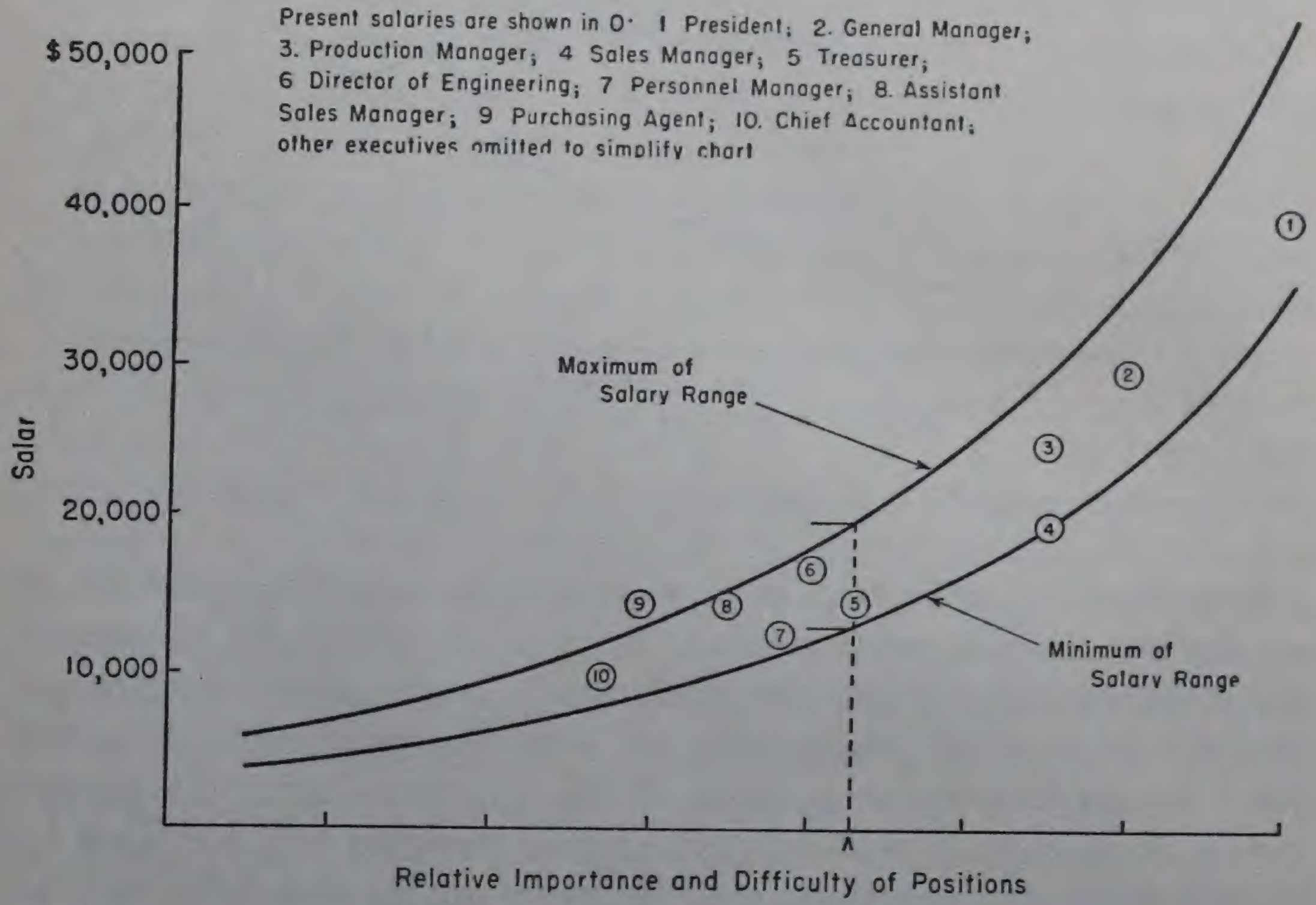

FIGURE 41. Illustration of Salary Structure of a Manufacturing Company.

The chart also shows the present salaries of ten of the company executives. It will be noted that, whereas the positions of production manager and sales manager were evaluated at the same point, there is a $2,500 difference in their salaries; this reflects the fact that the present sales manager has just been promoted to that position. The wide salary range makes it possible for the outstanding director of engineering to receive more than the treasurer, even though his position is not considered quite as important. The purchasing agent, who is above the maximum for his position, was given that salary before systematic study had been made of the total structure; and, while his pay will not be reduced, he cannot expect a raise as long as he remains in his present position.

This guide for establishment of salaries provides considerable flexibility. In addition to a wide range to allow for differences in individ-

ual performance, it is simple to adjust the range either upward or downward as duties in the position change. For some positions, where the duties are partly built around the man rather than the job, it may be hard to decide whether the man's performance in his original job is unusual or the job itself has changed. It won't make much difference in the pay check whichever way it is done, as long as care is exercised not to give credit twice.

Need for flexibility. The salary structure proposed should be regarded as a guide rather than as an inflexible standard. There may be particular reasons why a man's pay does not fall exactly where the quality of his performance would indicate. For example, an executive placed in a position primarily for training purposes in connection with a job rotation plan may be receiving a higher salary than the quality of his performance on that particular job warrants. Young men who have risen rapidly in the executive ranks are likely to be paid in the lower part of the range for their positions; it is considered psychologically desirable not to increase a man's salary too rapidly and to leave some room for future increases. In a sense, the man is not being paid as much as he's worth, but this is offset by the customary practice of not reducing salaries when a man's effectiveness begins to taper off. The special incentives discussed in the next section may also influence the base salary.

Such reasons as these may well justify a salary that is "out of line." Nevertheless, there is still need for a concept of what the normal range for the position should be, so that the magnitude of the exception will be recognized. Without a basic salary structure, the exceptions may be perpetuated and still other inequities added.

Bonuses, stock options

Financial incentives for executives. The use of direct financial incentives for executives is complicated by the fact that results of the efforts of a particular executive are often difficult to measure and are likely to be strongly influenced by economic conditions, action of competitors, and other factors clearly outside the influence of the executive. Consequently, it is usually unwise to have a large proportion of executive compensation consist of incentive pay. In most circumstances, if financial incentives are to be used at all, it is preferable to treat them as extra payments beyond a reasonably adequate base salary.

The use of limited financial incentives has a number of advantages

for private-profit enterprises. The executives are given a positive financial spur toward greater effort; there is a generally recognized element of fairness in allowing the executives to have a share in the improved returns accruing to the enterprise at least in part because of their efforts; some flexibility is introduced into executive payroll expense, since incentive compensation is likely to be low when the company's earnings are low; and, recognition for outstanding performance in one year is not permanently incorporated into the payrolls. A firm with a financial incentive plan may reasonably keep its base salaries at or below the general market average, thereby reducing the *net* cost of the incentive; in actual practice, however, this is not always done.

The basis upon which the incentive compensation is paid should be tied as closely as practicable to the work of the individual executive. The sales manager, for example, often receives a bonus on sales volume, although this illustrates one of the hazards of an incentive plan. An incentive based on one aspect of a job may lead the executive to slight other parts; for example, the sales manager may become more interested in sales volume than gross margins received or developing good will of customers. Companies with reliable output standards and budgets may tie incentives to expense ratios, savings under budgets, and similar figures. In general, however, it is desirable to use such standards as only one of the measures and to tie the incentives for executives to over-all performance, even though this may be more difficult to measure.

Executive bonus funds. A relatively simple and flexible plan that can be adapted to many enterprises is an executive bonus fund. Typically, a fixed percentage of the net profits of the company is set aside for the executives. Part of this fund is divided among the executives according to percentages or shares established along with the base salary. The balance of the fund is alloted to executives by top management or a committee of the board of directors for unusual performance during the past year. This gives all executives who participate in the fund a fixed interest in the net profits, and also creates a "kitty" from which an executive may get much or little depending upon his individual performance.

Stock purchase plans. Another type of financial incentive is an arrangement for executives to acquire common stock of the company at a favorable price. Having become stockholders the executives then have a continuing interest in the prosperity of the concern. Such

arrangements are much less common today than they were in the past. As corporations become larger and pass from the hands of one or a few stockholders, special opportunities to purchase stock are harder to arrange. More stringent legal regulations covering the issuance of additional stock have further complicated the picture. Income tax regulations, which, in general, treat any difference between current market price and the purchase price paid by the executive as personal income and which take 40 per cent or more of all corporate income before it becomes available for dividends, have made stock purchases less attractive than high annual salaries, both to the executives and to the company. The sad experience of many executives who purchased company stock in the late 1920's and then watched its value decline drastically in the depression of the early 30's has led to the conclusion that junior executives with limited resources should not risk their savings in the stock of the company from which they draw their monthly pay check.

Stock options. There remains, however, one situation when opportunity for stock purchases may be very helpful. A company badly in need of new top management may be unable to pay high enough salaries to attract the kind of new leadership that is needed, and a liberal arrangement to buy stock may be the most practical alternative. Usually the new executives are given an option to buy a stipulated amount of stock at a fixed price. They will not exercise this option, of course, unless the value of the stock rises above the price they have to pay. But if they succeed in making marked improvements in company earnings they stand to profit handsomely.

The arrangement is attractive to stockholders because the company gets new management without incurring high overhead, and any reduction of the share of total dividends going to old stockholders will be more than offset by the larger dividends that can be paid. The use of stock options, however, is obviously suited only to special circumstances and should not be regarded as a common basis of executive compensation.

Pension plans. High personal income taxes have become a significant factor in the compensation of executives in the top echelons. Some of the large corporations have explained substantial salary increases for their top executives by pointing out the relatively small portion of the increase that the executives were able to keep for their own use.

Probably a more significant result of high income taxes is the inter-

est of the executives in pension plans, which have the effect of spreading income over a larger number of years and, consequently, of reducing the average tax rate. The Internal Revenue Bureau is, of course, suspicious of any plans that look like deliberate attempts to evade taxes, and insists that any recognized plan cover a substantial number of the employees. The Bureau also watches closely any bonus plan that pays money, not directly to the officers but into a pension fund.

These are only some of the ways executive compensation may be adapted to the tax structure. The issue is quite intricate, and any company giving its executives an annual compensation of over $25,000 each should obtain specialized and technical advice on how tax regulations affect its particular situation.

Conclusion regarding compensation. This discussion of executive compensation should not be interpreted to mean that financial remuneration is the only incentive for executive effort. As will be pointed out in the discussion of control, there are a variety of nonfinancial incentives that may motivate behavior to a greater extent than financial reward. Nevertheless, in modern society financial remuneration is essential. Poorly handled, it can cause poor morale, internal bickering, and a failure to attract and retain competent executives. Properly handled, it can contribute to a feeling of fair treatment and security that nurtures the constructive effort of the executives, and within limits it can serve as a positive incentive to more effective effort.

Organization for Executive Personnel Program

Key role of supervising executives. Primary responsibility for executive personnel must rest with the line executive supervising the man concerned. Time and again in the discussion of company needs, selection, development, and compensation the vital significance of the supervisor, the boss, has been emphasized. Consequently, responsibility for executive personnel starts with the top operating executive and extends throughout the administrative pyramid. Responsibility for developing subordinates should be regarded as one of the inherent duties in every executive post.

Staff assistance. This basic responsibility should be supplemented with a staff man or agency. A variety of technical questions arise in connection with selection, appraisal, development, and compensation

upon which expert advice can be very helpful. Moreover, there is need for coordinated action in connection with the analysis of company needs, preparation of promotion tables, planning job rotation, deciding on company-sponsored development programs, building a salary structure, and similar matters. Finally, the proper handling of executive personnel is so crucial to effective operations that the chief executive may want someone to follow this matter closely, suggest and stimulate action where it is needed, and report from time to time on current progress and efficiency. It would be a grave error to assume that a staff unit charged with these duties relieved the line executives of their basic responsibility, but it is not too much to hope that the staff unit will be of considerable assistance on executive personnel matters.

The staff work just described should be headed up by someone who is considered a part of the top management group of the enterprise. The numerous decisions affecting the personal welfare of a large number of executives cannot be delegated to someone who is out of touch with the needs, the successes and failures, and the feelings of the key officials. In a small company with only fifteen or twenty executives involved, this staff work will probably be a part-time assignment of one of the senior officials who has the interest, ability, and objectivity required. In large companies it can well be a full-time assignment in itself, or combined with some closely related staff duties such as organization planning.

The company personnel officer may be asked to perform the executive personnel staff work, but this is not always desirable. The personnel officer may be too busy with problems of rank-and-file workers; he may not be of the necessary stature in company operations; he may be primarily concerned with collective bargaining, perhaps having a legal background, and not qualified for executive personnel work. In other instances the personnel officer is ideally suited for the assignment. Because of the nature of the duties, this is one of those assignments that should be made primarily on the basis of personality, rather than organization logic.

Executive personnel committee. A third desirable feature of organization is an executive personnel committee. The intangible nature of the problem and the importance of the decisions make this one place where group judgment is desirable. Usually the committee should be small and include, in addition to the top staff man on executive per-

sonnel, one or two other men whose fairness, wide knowledge of the company activities, and human understanding make them highly respected by all executives in the enterprise.

Duties of this committee should probably include review of promotion schedules and rotation plans, of final selections to fill vacancies, and of proposed salary changes. The authority of the committee must be adjusted to the circumstances. For example, the committee approval of recommendations received from operating people regarding junior executives might be final, whereas for senior executives the committee's views might be considered recommendations to the chief executive, or perhaps to the board of directors.

Summary: Executive Personnel

The selection, development, and compensation of key subordinates is an omnipresent and crucial duty of every executive. He will also have to spend some time on assembling other resources, but none poses as universal a problem as obtaining good executives.

The first major step in a systematic approach to obtaining executive personnel is a careful study of just what men are needed. Starting with plans for a future organization structure, the duties of each position should be translated into "man specifications." Then a careful comparison of these needs with an inventory of men already available will show up requirements for new talent and for development all along the line. Most companies will find that they need replacements in specific positions promptly, runners-up for each key position, and a group of "comers" who can take over the reins a decade or two hence.

Appraisal and selection is the second major step. Appraising executives points to ways performance on present jobs may be improved, and it also provides a basis for selecting those who are to be promoted. This evaluation process will be more reliable if group judgment, periodic appraisals, and trial on a series of jobs are used. When thinking about the present job, emphasis should be on how well a man is meeting performance standards and what help he needs to improve his work. Selection for promotion is more intangible, and for this purpose a variety of records, comparative rankings, and observation of performance in a series of jobs is needed.

The dynamic aspect of an executive personnel program comes in the third phase, executive development. Men grow in perspective and

understanding, and they develop distinctive skills. A company can aid in this development by stressing the value and techniques of learning on the job, by rotating men through a succession of jobs that will provide training for future responsibilities, by wise use of committees and conferences, and by assisting in the personal adjustments of each individual. This is a continuing activity that should be an integral part of current operations.

The program should also give attention to the ticklish question of executive compensation. Generally this can be handled best by setting up a sound salary structure, and by wise use of bonuses and other forms of supplementary pay. The plan must be equitable and at the same time flexible enough to fit the highly individualistic nature of a cadre of executives.

Assembling key personnel, like most other phases of sound administration, need not be made mysterious and intricate. There is great need for sound judgment, to be sure, but the underlying process is readily grasped. The tough task is putting into practice the principles we already know.

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Part IV

DIRECTING

Chapter 21. Direction
Chapter 22. Coordination

Chapter 21

DIRECTION

With plans drawn up, the organization designed, positions filled by competent people, and other resources at hand, the enterprise is ready to go. Directions are now needed to start the action. This process of direction is concerned with the way an executive issues instructions to his subordinates and otherwise indicates what it is that should be done.

Direction is an essential step in administration; without it virtually nothing would happen. After all, it is the people in the lowest level of the administrative hierarchy who carry the real burden of actual performance, and, aside from nondelegated duties, the only excuse for having executives is their influence over the behavior of the "doers." The direction process is such an elementary part of administration that it is likely to be taken for granted. Men who have held supervisory positions for several years simply assume that anybody can give instructions, and certainly there is nothing they need to learn about the process. As H. A. Simon has observed:

> No step in the administrative process is more generally ignored, more poorly performed, than the task of communicating decisions. All too often, plans are "ordered" into effect without any consideration of the manner in which they can be brought to influence the behavior of the individual members of the group.[1]

As with other phases of administration, there are better ways and poorer ways of giving directions; and since planning becomes effective only through this step, it clearly warrants careful attention.

Direction is a part of supervision. Supervision refers to the day-to-day relationship between an executive and his immediate assistant; and it is commonly used to cover the training, direction, control and motivation, maintenance of discipline, and minor adjustment of plans

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[1] *Administrative Behavior*, page 108. Copyright 1947 by Herbert A. Simon and used with the permission of The Macmillan Company.

to meet immediate situations that take place in the executive-subordinate relationship.

These various parts of supervision are, of course, closely interrelated, and a discussion of any one part, such as direction, inevitably touches upon some of the other phases. For example, training and direction are almost inseparable, and the manner of directing is closely associated with problems of control and motivation. Since control and motivation are considered in the final chapters of this book and the training of executives has already been discussed, attention in this chapter will be focused on the following points:

1. Characteristics of a good instruction
2. Always follow through or countermand an instruction
3. Standard practice and indoctrination
4. Explaining why
5. Consultative direction

Characteristics of a good instruction

There are a few characteristics that every instruction should have. As a minimum, an instruction should be reasonable, complete, and clear; often it should also be in writing. Unfortunately, meeting these standards is not quite so simple as it sounds.

Compliance should be reasonable. Asking a man to do something he considers unreasonable has a bad effect on morale. The reaction of the man upon receiving such instruction is likely to be "Who's he think I am anyway? Superman?" Moreover, the unreasonable request undermines control, inasmuch as it is not practical to hold the subordinate responsible for its fulfillment. In thinking about whether an instruction is reasonable an executive should consider whether the man who will receive it has the necessary experience and ability to perform it satisfactorily. Also, he should consider whether materials, equipment, external conditions, company rules, and other aspects of a total operating situation will permit the man to comply if he uses a reasonable amount of effort and ability.

The instruction should be complete. Merely to say to the controller, "Set up a cost accounting system for the branch offices" is certainly vague. Not even the purposes of the system and the use to which it will be put are indicated. A complete order should leave no question in the mind of the man receiving it as to what is to be done; the quality and quantity of performance that will be considered satisfactory should be understood. If it is not desired to give the man free rein as

to how the assignment is to be carried out, then the method also should be specified. And, the time factor should be indicated; to request an analysis of shipping expense within two hours is quite a different order from requesting an analysis that may extend over two weeks or two months. The quality and quantity standards combined with the time allowed for performance will, of course, have a marked effect upon whether compliance is reasonable.

The instruction should be clear. The important thing is that it should be clear *to the person receiving the order*. Too often the executive giving an instruction thinks the order is clear because he has a definite picture in his own mind as to what is to be done. This is not enough. He should try to place himself in the position of the subordinate and then consider what the subordinate needs to be told. Also, the language used should be readily understood by the subordinate. This matter of clarity is particularly important in written instructions to branch offices where subordinates do not have opportunity to ask questions as to the meaning, and the executive is not in a position to observe frequently how the order is being carried out.

Written instructions. There is full agreement in theory, if not in practice, that orders should be reasonable, complete, and clear. The matter of putting instructions in writing is a more debatable point. Those who advocate the use of written plans will point to a number of benefits. The planning itself is often improved because the very process of writing instructions forces the executive to think things through more carefully and be more specific. Written instructions can improve communication partly because those who receive them have time to study the content of the order. Also, they assure that uniform directions will be received by all the people directly affected, inasmuch as duplicate copies can easily be distributed.

These improvements in communication are particularly important when training new personnel or when issuing complex instructions that are hard to grasp from a single oral statement. Perhaps most important, written instructions provide a more reliable memory than the human brain. If it is down in black and white, there need be no debate what the boss said to Jim two weeks ago. Written procedures and manuals provide sustained instructions even to the old hands who may wish a reference guide for exceptional problems and a reminder of standard methods.

This improvement in planning, communication, and memory is not all net gain. The preparation of written instructions involves expense,

particularly the time of key men who must at least participate in the preparation. Also, expressing standing plans in writing adds an element of inflexibility. Even minor changes require the sometimes painful process of formal revision, and there is a tendency either to continue to use instructions when they have been outmoded, or to disregard them, both or which are undesirable. And finally, the quantity of written material an individual will actually read and use approaches a limit. If an executive writes only occasional two- or three-paragraph memoranda, they will probably carry considerable weight, whereas if two or three pages of detailed instructions come to the subordinates twice a week these are likely to receive only a scanning and be filed away in a bulging file of instructions for emergency use only.

These pros and cons on the desirability of putting instructions in writing suggests that this may be desirable when (1) several individuals are subject to or directly affected by the instructions, (2) execution of the instruction will extend over a considerate period of time, (3) the instructions are so complex and detailed that it is hard for an individual to carry them all in his mind, or (4) the matter is of such importance that special steps to avoid the possibility of misunderstanding are needed. There is enough chance that one or some combination of these conditions will be present so that any executive giving directions should ask himself the question, "Should this instruction be in writing?" A practical procedure in many situations is to put the main features of the instruction in writing, but to cover the background and the interpretation orally.

Always follow up an instruction

Another well-recognized principle of direction is that once orders are issued they should be followed up to see that they are executed, or the instructions should be countermanded.

Effect of indifferent follow-up. If an executive gives directions and then permits subordinates to decide if and when they will carry them out, the entire administration becomes lax. Time schedules lose their significance, additional inspections are necessary to discover what has and has not taken place, and the success of a subordinate depends in no small part upon his ability to guess when to take the boss seriously.

Disregard for instructions and even laws can become a common practice. For example, a surprising laxness of enforcement is reflected in the following notice that was posted one winter by a New York bus company.

A Request

Smoking on Buses not only is Unlawful,
it is objectionable to many riders
who do not smoke on buses.
Now, during the winter season when
windows are closed, and out of consideration
for others, we especially request the
cooperation of all patrons in observing
the "No Smoking" law.

Carelessness in following up instructions is sure to result in inefficiency.

Instructions that were not forgotten. Mr. R. K. Davies followed a procedure while he was operating head of the Petroleum Administration for War that made an indelible impression upon those who operated under him. On each communication he sent to his subordinates there was attached a little green slip, carrying a notation such as, "Please prepare reply," "Please take care of and report action on," or some similar instruction, plus a due date. Even oral instructions were usually confirmed by a brief note and the omnipresent little green slip with its due date. Mr. Davies' assistant then maintained a tickler file with a record of each of these instructions.

As sure as the sun rose on the day a reply was due, there would be a call from Mr. Davies' office if the matter had not already been attended to. An extension of time might be obtained for good reasons, but the matter was never forgotten. The result was that these instructions got worked on in the evening instead of being placed in a desk drawer; the tempo of work in the entire agency was speeded up. The green slips and tickler file were, of course, merely mechanisms that happened to fit in this situation. The general principle, however, can be used by any executive from the president to the first-line supervisor.

Careful direction required. Insistence on execution of instructions carries with it some burdens on the executive. He must be very careful about the instructions issued. If he asks that a particular task be performed with unnecessary speed, it may not be done as well as it might otherwise be, or expenses may be increased through extra overtime or interruption of other work already in progress. For similar reasons he must be careful to distinguish between results that will be satisfactory and those that are desirable but should not be considered as essential.

Moreover, the executive must be prepared to countermand instruc-

tions when their fulfillment is no longer necessary. This sounds simple, but for some executives it is embarrassing and apparently involves some loss of face; so there is a temptation to let the instructions remain in force, without insisting on their execution. Actually, the respect for the executive who is cautious about the orders he permits to remain extant, and then maintains a firm surveillance to see that they are carried out, is usually much greater than the respect for an executive who never admits making mistakes even though the facts in the situation indicate the contrary.

Standard practice and indoctrination

Standard practice simplifies instruction. The purchasing agent of a textile mill interrupted a conference with a salesman long enough to ring for his secretary, and when she appeared at the door he held up two fingers. In a few minutes the secretary reappeared with two glasses of ice-cold Coca Cola. Except for a thank you at the end, not a word was spoken, and yet an instruction had been given and promptly carried out. The explanation lies, of course, in the standard practices that had previously been set up. The meaning of the sign, the place to get the Coca Cola, an envelope containing petty cash to pay for it, and the way it was to be served all had become an established pattern. The instruction necessary to initiate action had been reduced to a minimum.

The use of standing operating procedures and of customary ways of doing things is a very important part of direction. It is possible, for example, for a naval commander to issue a terse order that may move an entire navy across an ocean, primarily because volumes of standing operating procedure have been issued and practiced many months and even years before. Standard practice greatly simplifies the instructions that are necessary to tell the accountant to prepare a monthly balance sheet, the branch manager to add two new salesmen, the credit manager to investigate the financial standing of a potential customer, and in like manner for a large number of operations in any enterprise.

Without these customary ways of doing things, the executive issuing the instruction would have to at least specify in considerably more detail the quality of performance he desires and, except in highly decentralized operations, he would also have to deal with how the work was to be done.

Reliance upon standard practice does not modify the characteristics of a good order. It is still necessary that the order be complete, in the

sense that the person receiving it should understand what is wanted, the quality and quantity standards expected, and the method to be followed. To the extent that these have already been covered by standard-practice instructions or customary behavior they need not be repeated. If, however, the executive wishes any deviation from the customary behavior, obviously he must include this in his instructions.

In actual operations, a large part of inadequate direction can be traced to misunderstandings about standard practice. The executive sometimes assumes a pattern of behavior quite different from that which the subordinates consider to be proper. This can lead to serious results, particularly when the executive does not make frequent observations of how the work is progressing. Primary responsibility for avoiding this kind of trouble must rest with the executive, for it is his job to issue instructions that are reasonable, complete, and clear. He should know how his subordinates will interpret a given set of instructions and, if there is doubt, he should either make the individual instruction more explicit or give his subordinates further training in what he regards as standard methods.[2]

Indoctrination. Another aspect of direction, related to the use of standard practice, is that of indoctrination. In this connection indoctrination means instilling in subordinates a set of beliefs and attitudes so that the men will look upon an operating situation in a desired way.

The significance of indoctrination in the process of direction is illustrated by the experience of a large company that has just signed its first agreement with a company-wide union. For many years this company had paid high wages, but expected in return unquestioned loyalty to the company. The management had taken the position that the unions magnified and even created friction between workers and their supervisors and tried to get the workers to look to the union, rather than to company management, for aid in overcoming their personal troubles. Consistent with this attitude it had been management practice to do everything it could to discredit the union.

Then, with changes in legislation, public attitude towards unions, and the success of the unions in other industries the majority of the company employees joined a union and the management found it necessary to engage in collective bargaining. Top executives of the

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[2] Army instructions say "... in many cases brevity (of orders) is governed by the state of training of the troops for whom the order is intended; for a newly organized or a poorly trained unit, the orders of necessity must be more detailed than for a well trained organization." *Staff Officers Field Manual*, F M 101-5, paragraph 71,

company felt they should make the best of the situation and work closely with the union. Accordingly, procedures for the handling of grievances and other matters were prepared.

In spite of announced policy of cooperation with the union and the various procedures implementing that policy, there was continuing friction between the union and many foremen and superintendents. The company found that no amount of formal instruction could cover the many relationships with the union, and that many of the "old guard" supervisors, who continued to have a belligerent attitude toward the union, rarely missed an opportunity "to put the union boys in their place." Only as the company has been successful in changing this attitude and in indoctrinating the executives with a belief that union-company relationships should be conducted on a harmonious basis has this friction been removed.

The way department stores treat customers provides quite a different illustration of the significance of indoctrination. Almost all of them give lip service to the slogan "The customer is always right," but in actual practice this may mean (1) if the customer can prove the store made an error, the sales person should gracefully make an adjustment; (2) if it is not clear just what happened, the customer should be given the benefit of the doubt; or (3) even though there is good reason to believe the customer is taking unfair advantage of some store service such as the exchange of merchandise, the service should be rendered rather than antagonize the customer. It is possible to indicate to some extent in the instructions given salespeople the store view of this matter, but here again the interpretation of the instructions, and the spirit in which they are executed, depends upon the beliefs and attitudes of the salespeople themselves. They must be indoctrinated with the traditions of the store if they are to carry out the instructions as desired.

Indoctrination, then, is more general and usually more pervasive than standard-practice instruction. Often it is not clearly defined, and an employee has to absorb the feel, or the philosophy, with which activities are conducted. Indefinite though these attitudes may be, they do make a marked difference in the way instructions are understood and carried out. The wise executive will deliberately try to create a set of attitudes among his subordinates that will lead them to performance of activities in the manner he desires. Indoctrination is a significant supplement to formal instruction, and it is even more important when authority has been decentralized to a high degree.

Relation to training. Both standard practices and indoctrinated attitudes should be developed through training. Of course, subordinates will develop customary patterns of behavior, or habits, and will possess certain attitudes and beliefs even though the executive takes no initiative in the matter. In view of their importance to effective direction, however, an executive should try to mold these habits and attitudes so that they will be useful to him.

Careful and advanced development of standing plans will make the training job easier, and the better the training is done the simpler will be the process of direction. Instilling beliefs and attitudes is a more elusive process, and is probably done more by setting an example, sharing experiences, and appealing to emotions than it is by written pronouncements and logical arguments. Whatever the techniques employed, such training is a preliminary and significant part of giving directions.

Explaining why

Generally, when issuing instructions it is desirable to explain why the order is being given. Instructions always leave more or less of the detailed planning to the person receiving them, and often unanticipated conditions arise that call for interpretation of the instructions. The person understanding why the order was originally given is in a much better position to adapt his actions and interpretations to the over-all purpose.

For instance, the accountant who is asked to compute sales commissions for the first six months will have some basis for deciding what to do with adjusting entries if he knows the use to which the final figure will be put. Explaining why also contributes to morale, because the person sees the relation of what he is doing to the wider activity, and has a little more sense of being "in the know."

It is recorded of Napoleon, the most autocratic of men, that he never gave an order without explaining its purpose, and making sure that this purpose was understood. He knew that blind obedience could never ensure intelligent execution of any order. Marshal Foch, in his *Principles of War*, makes the same point in his distinction between *passive* and *active* obedience. "Command," he says, "never yet meant obscurity." Active obedience implies initiative, and intelligence in the exercise of this initiative requires a knowledge of how the specific objective fits into the general plan.[3]

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[3] J. D. Mooney and A. C. Reiley, *Principles of Organization*, Harper & Brothers 1939, page 131.

Care must be taken that the explanation does not result in confusion of the instructions actually issued. One employee was heard to remark after he emerged from a lengthy session with his chief who had gone to great pains in explaining the total over-all problem they were working on, "it sounds awfully important, but I'm not sure just what he wants me to do. There was no need of all that talk if he only wants a little information from two suppliers."

The desirability of explaining why an order is issued will depend primarily upon: (1) the extent to which the subordinate must exercise his own initiative and judgment in carrying out the instruction; (2) the capacity of the subordinate to comprehend the total situation; (3) the importance of training the subordinate; (4) the time available for discussion when the order is issued; (5) the likelihood that the instruction will be unpopular with the subordinate; and (6) the extent to which the subordinate already understands the reasons as a result of his previous training.

Consultative direction

The principle involved. Consultative direction carries the idea of explaining why an instruction is issued one major step further. Before an order is issued, the people responsible for executing it are consulted about its workability and better ways of accomplishing the same results.

If several subordinates are affected by a single instruction, they will typically meet together with the executive to discuss the most practical course to follow; if only one subordinate is involved, then there need be a meeting only between that man and the executive. To be effective the executive must not so dominate the situation that his request for suggestions is merely perfunctory. Instead, he must share with those being consulted information regarding the total situation, and suggestions advanced should receive objective consideration even though they differ from what the executive had in mind at the beginning of the discussion.

The manager of a sales branch who uses consultative direction will not merely call his salesmen together and tell them of a new product that is to be added to the company line, explain what they are to do in helping to promote it, and perhaps close by giving the salesmen an opportunity to ask qeustions. Rather, he will tell the men all he knows about the new product and the advertising and other sales promotion that was to be undertaken by the headquarters office, and then ask for

suggestions on how the product can be introduced in their districts so as to get the greatest volume of orders without seriously undercutting the sales of the existing line.

No doubt some of the ideas suggested by the salesmen will be rejected by the men themselves, others may be impractical for reasons that the manager can explain, and still others will be similar to ideas the manager himself had thought of. Psychologically it is desirable to treat the latter suggestions as originating with the men, rather than saying, "I've already thought of that." There will, of course, be no objection to the manager introducing ideas into the discussion, provided they are subjected to the same critical review that is given other suggestions. Out of this discussion, perhaps extending over several meetings between which additional facts can be assembled, will come a program for promoting the new product that is different and better than any one of the men, including the executive, would have thought of by himself.

Consultative direction modifies the autocratic character of centralized planning. Instead of an instruction being regarded as the personal whim of an executive, it becomes what Mary Parker Follett has called "the law of the situation." This difference can be illustrated by the way instruction was given in a controller's office just after it was learned that a special report would have to be finished two days ahead of schedule. The report was to be sent to the board of directors in advance of its next meeting, and a change in the date of the meeting led the president to ask that the report be finished up early. The controller might have said to the men working on the report, "Sorry, boys, call up your wives and tell them you won't be home for dinner tonight. We all have to stay late so that that report can be finished up by tomorrow afternoon." The typical reaction to such an instruction would have been some grousing about need for planning, why wasn't it announced earlier, it never pays to invite company to dinner, and so forth.

Instead, the controller called the men concerned into his office and told them of the change in the date of the directors' meeting. He pointed out that if the report was to serve any useful purpose it would have to be completed earlier, and then asked each man to tell how far along he was and what would be necessary to complete his part by the next afternoon. Before the discussion was over, it was perfectly clear that some, though not all, of the men would have to work late that night. It was the situation, however, that dictated this late work, and

not the cantankerous notion of an individual. Such depersonalizing of instructions can be secured to some extent without consultative direction, but it is particularly effective when the people themselves participate in the preparation of the instruction.

Benefits of consultative direction. The participation provided by consultative direction leads to greater *cooperation and enthusiasm* for one's work. Studies of human behavior show over and over again that active participation in the preparation of plans and a feeling of having contributed to those plans significantly increases the energy that is put into their execution; a man will work a lot harder for an idea if he has some feeling of authorship.

Consultative direction *improves the plans* that are finally adopted; at a minimum, the plans are likely to be more workable because those who have to put them in effect have had a chance to point out practical difficulties and suggest alterations. Not infrequently a creative or basic suggestion will be made that will make a program much more efficient or effective.

More harmonious personal relationships between an executive and his subordinates usually result. *Bossing is minimized* and the executive becomes more a coordinator of ideas.

Personal development is encouraged. Subordinates have an opportunity to think beyond their immediate job, to test out new ideas, to secure a sense of creative workmanship. This type of supervision, of course, fits in neatly with the techniques of executive development discussed in the preceding chapter.

Finally, the subordinates will have a full understanding of why a plan is adopted and they will appreciate how the various steps are expected to fit together to accomplish a given purpose. This greatly *simplifies* the task of issuing and interpreting *instructions.*

Dangers connected with consultative direction. If consultative direction is to be used as an administrative tool, the executive should recognize that some risks are involved. Fortunately, these dangers can be avoided or minimized, provided the executive operates with care.

There is the ever-present possibility that the *instructions* issued under consultative direction will *not be complete and clear.* All too often some extended discussion of an operating problem breaks up when one member of the group has to meet another engagement, and there is no clear-cut agreement as to the action to be taken. In other instances the discussion may lead the executive to see a number of steps that need to be taken, but these are never stated in a succinct fashion

The discussion of a problem leads some executives to assume that complete instructions and follow-up are unnecessary.

What should be done is this; someone, usually the executive, should summarize the plan agreed upon. This then becomes the order from the executive. Like any other order, some or all of it should be reduced to writing if a large number of people are affected, if execution will extend over a long period of time, if it deals with a highly important operation, or if it is detailed and complicated. The risk is that after there has been a full discussion, this crispness of instruction will be lacking.

A second danger is that *insubordination may develop*. Some individuals think that the privilege of participating in the drawing up of a plan gives them license to change it later. Particularly if a man suggested the idea in the first place and then discovers that a small modification will work better, he is likely to feel free to make this change without consulting his superior.

Another source of insubordination is the feeling that being consulted has become a right, and that there is no obligation to carry out instructions unless a prior opportunity to discuss them is afforded. The employee may take an attitude that, "The boss didn't ask me for my ideas, so I don't see why I should follow his." To avoid this it is important to have a clear understanding that conditions do arise that make consultation impractical and that the executive may, at his own discretion, issue instructions that have the full weight of administrative authority behind them.

A third danger is that consultative direction may become a fetish and be used for little things, or in other situations when the *time and expense* of consultation are definitely greater than any benefit that may be expected. The factors to be considered in deciding when to use consultative direction are like those for explaining the why of an instruction: extent of delegation, capacity of subordinates, importance of training subordinates, time available, importance, and popularity of the subject.

Consultative direction, like many good things, should be used with a sense of moderation and appropriateness.

Democratic administration. Consultative direction is related to the more philosophical concept of democratic administration. A good theoretical case can be made for the contention that employees *should* actively participate in the planning of activities that absorb such a large part of their energies. This is advocated as an essential aspect of

a consistently democratic society and as a means of developing balanced personalities. Consideration of these points goes beyond the scope of this book. Here we take a more pragmatic view, and are interested in consultative direction because, when used properly, it can be a potent and practical tool of administration.

Summary

Direction is that vital step between preparation and actual operation; it is the issuing of instructions and otherwise indicating to subordinates what should be done.

Every instruction should possess three basic features: (1) compliance should be reasonable; (2) the instruction should be complete as to what is to be done, and when; and (3) it should be clear to the person receiving it. Moreover, at least the main points of an instruction should be written when several individuals are involved, execution extends over a long period of time, the subject matter is complex and detailed, or action of major importance is involved. Once an instruction is issued, care should be taken to see that it is carried out, or it should be countermanded.

The process of direction can be greatly simplified by establishing standard practices, for then an instruction need cover only new parts of the plan, such as when or how much. Indoctrination also contributes to clear understanding of instructions, and is especially significant if authority has been decentralized. Consequently, direction should start with the development of desirable work habits and attitudes.

Explaining why an instruction is being issued is generally desirable. This leads to better understanding and contributes to morale. Consultative direction goes even further and lets the subordinate participate in the planning and formulation of the instruction itself. Such consultation usually improves cooperation, aids in planning, minimizes bossing, and helps in executive development. However, if consultative direction is used, care must be taken that it does not result in fuzzy directions or insubordination. Neither explanations of "why" nor consultative direction should be carried to the extreme; they involve time and expense, and on minor matters or when subordinates lack interest this more elaborate direction is unwarranted.

Direction moves on into control as the supervisor checks on actual performance, gives praise or criticism, and motivates subordinates. These aspects of supervision are discussed in Part V.

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Chapter 22

COORDINATION

Significance of coordination. In administration, coordination deals with synchronizing and unifying the actions of a group of people. A coordinated operation is one in which the activities of the employees are harmonious, dovetailed, and integrated toward a common objective.

Achieving coordination is one of the primary goals of every administrator. It should not be regarded as a separate and distinct activity, however, because it is a part of all phases of administration. Planning, organization, executive development, direction, and control all should contribute to coordination. To be sure, the efforts of some members of an enterprise may be devoted primarily to securing coordination, but it is fantastic to think that the total task of securing harmonious action can be delegated to a single department. Coordination is a condition that should permeate the administration, rather than one or two devices that may help to bring it about.

Prevailing need for coordination. The need for unified action is apparent in all types of enterprise. The sales department of a company should not seek additional orders from customers if the credit department is going to refuse to grant the expected credit terms; on the other hand, the credit department should not be so cautious that a new but potentially large customer is automatically refused credit because of the absence of a payment record extending over several years. The production manager who receives delivery and a bill for a new machine and then has to wait three weeks for one or two additional parts before the machine can be installed has a justifiable complaint against the coordination of the equipment manufacturer.

The need for coordination is not new—

> As long ago as the 18th century, James Watt's production men were sending memos to his designers: "We beg that you pay more particular attention to the manner of the flanges on the castings. We have had much reason to complain of this part hitherto, and we have been obliged to chisel out the irons to the proper cone. This expense may well be saved by some attention paid by you."

The sales agent was complaining: "The wheels of the implanted motion are so bad they must be replaced with new ones. The connection rod top has broken. The connection rod gudgeons have a slot the full thickness of a worn shilling. The racks and sectors are badly fitted and many other matters." And the engineers were retorting: "Why does thou not send a list of particulars instead of saying simply and in general that things do not fit?" [1]

Many executives today face increasingly complex tasks of coordination. As an enterprise grows in size the task of synchronizing its many activities becomes more difficult. A high degree of specialization in departments and in jobs necessitates a neat dovetailing of effort in order to secure unified results. Then, new techniques, changes in competitive conditions and in volume of business, added governmental regulations and other forces introducing change in customary methods of work add to the task of coordination. Fortunately, our knowledge of how to obtain coordination is also increasing, so an executive with a modern kit of managerial tools should be able to cope with these added complexities.

Although coordination is only one of the factors contributing to the efficiency of an enterprise, it is nevertheless an important one. When faced with a need for securing it, the administrator should consider:

1. Simplified organization,
2. Harmonized programs and policies,
3. Well-designed methods of communication,
4. Aids to voluntary coordination,
5. Coordination through supervision.

These measures are of course, related to several phases of administration, since coordination cuts across the entire process. For those phases already discussed, such as organization and planning, all that need be done here is to show how they can contribute to unified action.

Simplified Organization

Departmentation that aids in coordination

In every enterprise there are certain activities that need to be closely synchronized with others. These may be purchasing and sales in a retail store, maintenance and operations in an airline company, parts fabrication and assembly in an automobile plant, or adjusting claims and legal work in an insurance company. If such related activities are placed in the same administrative unit, coordination is made easier.

[1] Quoted in *Management News*, April, 1950.

There are likely to be more informal contacts between the people whose work is closely related, and a single executive is charged with seeing that the activities are dovetailed.

Functional specialization, which is so characteristic of modern enterprise, leads to an organization that is divided into a whole series of units, each of which is concentrating on only one phase of the total operation. Then, for any goods to be produced or services rendered, it is necessary to draw together contributions from each of these specialized units. This creates a major problem of coordination. As the enterprise grows, each unit becomes larger and more bureaucratic. A time comes when some of the benefits of specialization must be sacrificed and closely related operations placed under a single chief in order to coordinate them more easily. Along with this creation of product or territorial divisions often goes the decentralization of authority, so that the man on the spot can make what adjustments are necessary to secure unified action.

These adjustments in organization often result in somewhat smaller product or territorial units. In other instances it may be a combination of two or more functional divisions. The important point here is that when an executive faces lack of coordination he should at least consider some rearrangement of departments so that the activities that have been out of step are organizationally closer together. Luther Gulick has remarked, "Whenever an organization needs continual resort to special coordinating devices in the discharge of its regular work, this is proof that the organization is bad." [2]

Clear-cut organization and procedures

The lack of a clear understanding of exactly who does what often leads to poor coordination. One company had to delay the introduction of a new product for a month because neither the advertising division nor the product development division had taken the legal steps necessary to establish and protect the trade name. Each assumed the other was taking care of the matter, and the slip-up was discovered so late that magazine advertising had to be postponed for a month and other sales promotion delayed. This, of course, resulted in considerable expense and confusion. Another company found that discrepancies in its year-end inventory value were due primarily to a

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[2] "Notes on the Theory of Organization," *Papers on the Science of Administration*, L. Gulick and L. Urwick, eds., Institute of Public Administration, 1937, page 26.

misunderstanding as to who was to enter return goods into the inventory account.

In still another firm, rush orders had a habit of sitting around the shipping room for hours because the regular delivery man knew he was not supposed to take the orders, and no one person was charged with responsibility for finding someone else to make the special delivery. This particular situation came to a head when the production manager found an order he had gotten out quickly at considerable interference with the flow of work still in the shipping room two days later. These are all examples of twilight zones where no one feels responsible. They, of course, are more likely to occur when some new or unusual activity is being undertaken, or when there has been a shift in personnel.

Trouble can also arise when two executives both feel they are responsible for the same activity. On more than one occasion both the purchasing department and the maintenance division have thought they were the ones to buy repair parts and minor pieces of new equipment, which resulted in difficulties with the suppliers and sometimes overpurchasing. Occasionally when such fuzzy organization leaves overlapping responsibility, the confusion is confounded by jurisdictional jealousy, and these jealousies in turn seriously interfere with voluntary coordination.

Clear-cut organization and procedures that are well-known to all persons concerned will enable an executive to avoid the kinds of difficulties just described. For this particular purpose it is not so important that the organizational procedures be the most efficient ones conceivable as it is that all activities are covered and that each person knows what he is responsible for and how his work relates to that of other individuals. Of course, the simpler the organization, the easier it is to establish such a clear understanding.

Harmonized Programs and Policies

Consistency among plans

The ideal time to bring about coordination is, of course, at the planning stage. In fact, one of the chief reasons for developing plans sometime ahead and in some detail is the opportunity this provides for re-examining and checking one plan against the other to be sure that they all do fit together into an integrated, balanced whole. In this review there are two aspects of planning that are particularly important

in achieving coordination, consistency among the plans and timing of the activity.

There is need to check plans for consistency, particularly of plans developed by different individuals or divisions. For instance, one company found that its personnel director was planning to hire several college graduates with the idea that they would be moved quickly from one position to another so that they could step into junior executive posts within three to five years. Several of the operating executives in whose departments these young men would have to work planned no such rapid promotion; they doubted that anybody could be prepared for a junior executive position with less than ten years of experience. Clearly, the planning for executive development in this company was not synchronized.

A similar type of difficulty in quite another field is illustrated by the United States' avowed policy of stimulating international trade and stabilizing currency values through a balanced flow of foreign exchange, and at the same time continuing to maintain high protective tariffs designed to reduce the flow of goods into the United States.

The president of a soap company found that his executives at the main plant were making shifts in equipment that would permit an expansion in capacity to take care of the rising demand, whereas a number of other executives were assuming that a branch plant would be constructed within two or three years that would take such a load off the main plant that its total volume would probably be lower than at present.

To secure consistency among plans it is necessary first to check one against the other to see whether they all add up to a unified program. When discrepancies are discovered it is not always easy to correct them, because there may be good reasons for moving in each of the proposed directions. Sometimes the difficulty is corrected by choosing one or the other of the alternatives, but at other times some new course of action or compromise is necessary in order to achieve proper balance along with coordination.

Proper timing

Coordinated activities must be not only consistent with each other, but also performed at the proper time. For example, in one of the classic illustrations of coordination, an assembly line in an automobile plant, timing is one of the cardinal features. The numerous parts, many of which are carried on overhead conveyors, must arrive at the as-

sembly line at just the right moment. It will not do to put the wheels for a yellow convertible onto a blue sedan. Also, the speed of the assembly line itself and the assignment of work must be adjusted so that one group of employees is not idle for lack of something to do while others are finding it difficult to finish one job before the next job rolls along.

Proper timing is vital, though perhaps not so conspicuous, in many other operations. A premium promotion campaign of a breakfast cereal company, for example, calls for synchronization of a whole series of activities. The procurement of the premium itself, printing of the package announcing its offer, the shipment of such packages to wholesalers and their subsequent release to retailers, the reservation of time on a radio network for advertising, the employment of talent and the preparation of script for radio programs, the design of newspaper advertising copy, the placing of newspaper advertising in numerous local papers, sales meetings describing the campaign to salesmen, salesmen's promotional work among retailers and wholesalers, arrangement of physical facilities and special employees to send out premiums when requested, all must be performed at the proper time if the campaign is to achieve its maximum effectiveness. In fact, premature advertising, delay in sending out premiums, and similar slips might cause such confusion and ill will that the campaign would have a negative rather than a positive result.

Even operations that involve only a relatively few steps need to be properly timed. A minor change in a company pension plan requires work with actuaries, lawyers, union leaders, and others, and the preparation of new forms, instructions to payroll clerks, and announcements to employees. These steps can and should be synchronized through proper planning.

There are a variety of excellent scheduling and other devices that may be used to assist in synchronizing operations. Some of these have been considered in the chapters on planning; budgeting is discussed in Chapter 24. Very briefly, the steps required for scheduling are:

1. Determine each of the activities necessary to accomplish the mission, and when one is dependent upon the other the sequence in which they must be performed.
2. Estimate the time required to perform each of these steps. This will depend in part upon the number of people and the facilities that it is planned to assign to this job.

3. Working away from some fixed point such as an annual convention, desired date of public announcement, or date of beginning the first step, establish a starting and finishing time for each of the steps listed in 1. Provide some allowances for unexpected delay, the amount of which will depend primarily upon the reliability of the time forecast made in 2. Then check to be sure the people and facilities needed to perform the activity will be available at the scheduled time.

Planning of this sort can contribute substantially to the proper timing of activities, which is essential to good coordination.

Well-Designed Methods of Communication

Good communication aids in coordinating activities. For instance, it is important to know promptly whether operations are proceeding in accordance with plan so that adjustments can be made when necessary. Moreover, there are a wide variety of activities, particularly those of a detailed nature, that it is impractical to plan far in advance, and coordination of these is achieved only as the people directing and performing them have current information regarding related work.

Communication of information on operating conditions and anticipated changes is also vital in preparing programs for the future. So, often when something goes wrong we hear the comments, "Why didn't somebody tell me?" "How was I to know?" Communication systems should provide, as a normal matter of business, for the flow of the bulk of this information needed for coordination.

Much of the detailed information needed for coordination can be provided by *working papers* that follow an established path from one department to another. When Mr. Smith buys a necktie at a department store and asks that it be sent to his home and the cost charged to his account, for example, coordinated action of several departments is needed. Out of the thousands of packages sent to the delivery department, the right one must be selected and left at the correct address. Also, it is necessary that someone locate Mr. Smith's account among the thousands of charge customers and make an entry for the exact amount of the transaction. Other accounting entries are needed too, for computing sales compensation, inventory on hand, and gross profit of the haberdashery section. Actually, all of this is done in a routine manner because the sales person makes out a slip with several

duplicate copies containing the necessary information, and these are routed to the departments concerned.

In a similar manner the specifications, route sheet, and similar papers permit the easy flow of work through a large factory. There must be an established flow of working papers for premiums and dividends on policies in a life insurance company. In virtually every enterprise there will be some activities that can be coordinated primarily through the proper flow of well-designed working papers.

A similar communication device that contributes to coordination is the *written report.* In the coordination of production and sales, for example, regular reports of inventory on hand and orders in production will be of considerable aid in planning sales activities and making delivery promises. Likewise, a report from the sales department of orders received and in prospect, classified by types of products, will be of great assistance to the production department in scheduling its work.

A great diversity of such reports is possible, of course, many of which will be useful for control as well as for coordination. The distinctive thing about an established report system is that it specifies who is to make out the report, what information is to be included, when it should be prepared and to whom it should be sent. This is important because it relieves the employee of the important and difficult task of continually deciding what part of the information he possesses should be passed on to others, and in what form.[3]

Other means of communication should be incorporated into the total system. Regular oral reports are more time-consuming, but provide opportunity for explanation and interpretation which is often highly important in coordination. Where personal contact is not practical, letters, memos and special reports should be used to supplement information on the regular reports and working papers.

In connection with all of these means of communication attention should be given to mechanical devices such as teletypes, telautographs, inter-communication systems, mimeographs and hectographs, which can be used to speed up the dissemination of accurate information to the various people that need it.

Summarizing: Since coordination is concerned with the interrelationships of separate activities, it can be no better than the transfer of information about those activities to some common point or points,

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[3] See H. A. Simon, *Administrative Behavior,* The Macmillan Company, 1947, page 159.

where the dovetailing takes place. Part of this transfer can come through informal contacts, as will be pointed out in the later paragraphs; but the big bulk of it should come through formal means of communication. Hence, the executive who is seeking to improve coordination should make sure that there is a free and prompt flow of pertinent operating data throughout the enterprise. Care should be taken in designing the various forms and reports used, since an overelaborate system will not only add to expense, but may defeat the very purpose of providing the right data to the right man at the right time.

Aids to Voluntary Coordination

In any enterprise, most of the coordination should take place through voluntary cooperation of the members. The billing clerk and the delivery man, the employment officer and the chief accountant, the advertising-copy writer and the purchasing agent, and numerous other combinations of employees must adapt their work to secure unified action. These are not cases where one man has authority over the other, and it would create an impossible organizational arrangement if this were attempted. Instead, it is expected that when the work of two individuals is related each will tell the other enough about his needs and operating difficulties so that they can agree upon a coordinated course of action.

Of course, they may not always agree, and it will then be necessary to carry the problem on up the administrative hierarchy until a satisfactory solution is developed by the senior executives, or is finally resolved by the single executive who directs the actions of both groups. But these should be exceptional cases, for if the precise nature of all relationships had to be specified by a superior executive, it would create an intolerable burden. Consequently, the wise executive will do what he can to promote voluntary coordination.

Voluntary coordination will be made easier by clear-cut organization, harmonized plans, and well-designed systems of formal communication, which have already been discussed. It may be encouraged in several other ways that are important enough to deserve careful consideration by an administrator seeking unified action.

Instill dominant objectives

A dominant objective that is accepted by people whose activities need to be coordinated has a potent influence on voluntary coopera-

tion. This is, perhaps, most apparent during time of war, when customers and suppliers, competitors, labor unions and management, and numerous departments and individuals within an enterprise will put themselves to considerable trouble in helping the other person if by doing so there is a greater contribution toward winning the war. Once this single overpowering objective is removed, petty bickering, jockeying for position, and general indifference to the problems of the other person become much more common.

The value of a dominant objective is also apparent in the playing of a football team. A spirit of teamwork prevails as long as winning the game is the primary purpose of all the members, but when some of the players seek personal glory and recognition from the grandstand, the task of getting coordinated action is much more difficult.

To cite an example from still another field, political parties can achieve considerable unity of action if they have a single dominating objective, such as removing the opposing party from power; but when diverse and sometimes conflicting objectives are sought by different factions in the party, which is likely to be the case once the party is in power, coordinated action is harder to achieve.

These dramatic examples of dominant objectives may seem far removed from anything that is possible for a division or departmental executive. Nevertheless, the basic idea can be applied to a variety of situations. In many companies, such as a telephone company, the concept of customer service is sufficiently strong to act as the catalytic agent for coordinated action. Achieving departmental production or sales goals, extending a no-accident record, beating the budget, getting the jump on a competitor, having the best guard force in town, getting the mail delivered on time, and other such objectives often can be made sufficiently strong in the feelings of a majority of the members of the enterprise to assist significantly in the coordination process.

The existence of such objectives spells the difference between a live and enthusiastic team and an assembly of individuals who find little satisfaction or sense of achievement in helping to make the organization tick. Every executive should seek to imbue his subordinates with such objectives as a vehicle for voluntary coordination.

Develop generally accepted customs and terms

Voluntary coordination is more likely to occur when people find it easy to work with one another. This can be brought about, in part,

by fostering the development of widely accepted customs of work and terminology. Each company has a certain lingo of its own, a typical formality or informality among employees, customs such as the use of written memoranda, and many other folk ways. To a large extent these just grow, although they may be encouraged or discouraged by executive action. The executive should be aware that these customs affect the ease with which people work with one another. Together with social compatibility they determine whether a given individual fits readily within a group. If he does, coordination takes place more easily.

Encourage informal contacts

Informal contacts are essential in supplementing formal communications. There are many explanations, questions and ideas that are too intangible or tentative to be included in formal reports and written documents, and yet are important to a complete understanding of a situation.

When talking informally over a cup of coffee, it is possible for one executive to point out ways that inefficiencies in the other man's department are causing him difficulty, without registering a formal complaint that appears in the record; one man can tell another how annoyed the chief executive was when delivery to an important customer was delayed; possible changes in organization or procedures can be discussed without upsetting morale; background data on labor negotiations or an important sales contract can be exchanged. This information that is communicated through informal contacts provides an essential background and understanding needed in voluntary coordination.

In any enterprise the executives and other employees will naturally form social groups, or what the sociologists call informal organization. It is largely through these relationships that the communication just described takes place; they are the stems and the branches of the proverbial "grapevine." An acquaintanceship with these informal groups is valuable to the executive who seeks coordination, because they indicate where voluntary adjustments will be easy and where they may be difficult. Moreover, through week-end conferences, company dining rooms, joint projects, and similar means it is possible to promote friendly relations among the men whose work should be coordinated. Such attention to informal relationships, then, should be regarded as one of the important aids to voluntary coordination.

The effectiveness of personal contacts in producing voluntary coordination will be substantially increased by following four principles that Mary Parker Follett has recommended:

1. Coordination by direct contact of the responsible people concerned,
2. Coordination in the early stages,
3. Coordination as the reciprocal relating of all the factors in a situation,
4. Coordination as a continuing process.[4]

These principles contain much sound advice. Voluntary adjustments are more likely to be made with people that one deals with face to face. It is easier to resolve difficulties when talking with Joe on a friendly basis than when writing a memorandum to a so-and-so in the headquarters office. Also, it is easier to make adjustments while plans are still in the formative stages and before the work is actually started. There is considerable inertia in human conduct, and what may be a matter of relative indifference before action is started becomes a real hardship if the change has to be made in midstream. Then there is need for a willingness to "give and take," to recognize the operating problems of the other fellow and together work out a solution that takes into account all the factors in a situation. Finally, a single contact is rarely enough. As operations proceed the executive should check with others affected by them to make sure that harmonious results are being achieved. These simple guides will help develop coordination at all levels of administration.

Provide liaison men where needed

In special situations the direct personal contact of key executives is not frequent enough to provide all the informal exchange of information that is desirable. To overcome this difficulty, men known in the army as "liaison officers" may be appointed. The liaison man is familiar with operating conditions and needs of his own unit and explains these to other divisions with whom he maintains close contact. At the same time he observes the operating needs of the latter group and reports these back to his own unit. The desirability of such liaison between the artillery and the infantry needs little explanation, particularly to an infantryman.

In large business concerns, liaison men are sometimes very useful working between the headquarters office and branches scattered over a wide geographical area, or between the production and sales depart-

[4] See H. C. Metcalf and L. Urwick, eds. *Dynamic Administration, the Collected Papers of Mary Parker Follett*, Harper & Brothers, 1942, pages 297-303.

ments. These men do not have authority to make binding commitments; their primary function is to provide an easy exchange of information and to suggest voluntary means of coordination.

The use of liaison men is not a complete substitute for direct personal contact. Nevertheless, where these men have the knowledge and capacity to really understand operating problems in all of the units they work with (and if they don't it is better not to have them at all), they can provide some of the personal explanation and interpretation that is so conducive to voluntary coordination.

Use committees

Committees provide an opportunity for direct personal contact and informal exchange of ideas and views. Often they are created for the explicit purpose of bringing together the men whose activities need to be coordinated and providing the setting in which voluntary coordination can take place readily. Even when the committee has other duties, the personal relationships established facilitate cooperation at other times.

Committees are not without their limitations, and are better adapted to some situations than to others. For a discussion of these points and suggestions for improving committee effectiveness, see Chapter 13.

Coordination Through Supervision

Simplified organization, harmonized programs and policies, well-designed methods of communication, and aids to voluntary coordination will go a long way toward securing unity of action. There will always remain, however, a residual group of coordination problems that must be handled by supervising executives. The more effective are these other devices, the less will remain for the supervisor, but he can never completely relieve himself of the task of watching the progress of the various activities under his direction to be sure they are proceeding harmoniously. He will need to prod here, restrain there, provide supplementary help in another quarter, revise schedules to meet emergencies, arbitrate sincere differences of opinion among his subordinates, all to maintain a balance and unity in the total results.

When the work load assigned to a supervising executive is so heavy that he is unable to perform these coordinating duties effectively, he may rely upon one or more *staff* assistants. These men acting on behalf of their chief follow operations closely, encourage voluntary coor-

dination, and when necessary recommend to the senior official action he should take. They may have functional authority in specialized areas, but generally it is preferable to have them work purely in a staff capacity.

In some circumstances, particularly in the army where the staff concept is well understood, these staff assistants perform a major service in securing coordinated action. In smaller enterprises, however, this more complex means of coordination is less likely to be necessary. If staff is to be used, the nature of the job, as discussed in Chapter 11, should be clearly understood.

Summary

Coordination is concerned with harmonious and unified action directed toward a common objective. It is not a separate activity, but a condition that should permeate all phases of administration.

An executive faced with the need for improving coordination should consider a number of approaches. Sometimes changes should be made in the structural or "built-in" provisions for coordination. Important here are, (1) creating divisions and departments in which the most frequent coordination problems can be resolved within an organization unit itself; (2) clarifying the organization and procedures so that no doubt exists as to who does what; (3) designing flow of working papers, reports, and other methods of communication so that information needed for coordination advances promptly to the right persons as a normal procedure.

In some situations there is need to harmonize programs and policies. Plans, especially those developed by separate individuals or divisions, should be checked for consistency. Also, the scheduling and other timing arrangements should be reviewed.

Still another approach is to promote voluntary coordination among subordinates. This can be done by instilling dominant objectives, developing generally accepted customs and terms, encouraging informal contacts, providing liaison men where needed, and using committees.

Finally, there will remain some coordination problems that can be resolved best by the personal attention of supervising executives, or, when they are very busy, by staff assistants or staff divisions working as representatives of the executives.

Generally, coordination will be achieved only through a well-balanced combination of several of these approaches.

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Part V

CONTROLLING

Chapter 23. Essential Steps in Control
Chapter 24. Budgetary Control
Chapter 25. Motivation

Chapter 23

ESSENTIAL STEPS IN CONTROL

ADMINISTRATION has been described as a continuing cycle of planning, organizing, assembling resources, directing, and controlling. The next three chapters of this book will deal with the final phase of this cycle, control; that is, assuring that the performance conforms to plan.

Control relies on other phases of administration. An executive cannot expect to have good control over his company or department unless he also follows sound administrative principles in his other duties. A well-conceived program, workable policies and procedures, assembly of the necessary resources, training personnel, clear instructions—all contribute to achieving the results desired. The better these things are done, the easier will be control.

This dependence of control upon other phases of administration is so important that some writers are wary of separating them. For example, General Somervell who has had wide experience in military, government and business operations recommends the following steps as means for securing control: define objectives, prepare plans and programs, develop suitable organization, establish policies and procedures, require periodic and special reports, allocate funds, allocate personnel, train and orient personnel carefully, inspect work in progress, reserve for personal action final approval of important undertakings.[1]

In a comprehensive study of administration, however, planning, organizing, assembling resources, and directing are themselves major phases. Consequently, we shall assume here that the preparatory steps

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[1] *Organization Controls in Industry*, American Management Association, General Management Series, No. 142, 1948, pages 3-13. A similar though not quite so embracive view is presented by R. C. Davis, which reflects much of the thinking in industrial management: "Wherever there are business activities that require control, their constraint and regulation require the performance of the eight organic functions of control: routine planning, scheduling, preparation, dispatching, direction, supervision, comparison and corrective action." *Industrial Organization and Management*, Harper & Brothers, 1940, page 121.

have already been taken. The administrator has given his instructions and is now concerned with seeing that they are well executed.

Even when control is used in this more specific sense, the line between it and other phases of administration is not sharp. For example, the development of goals is an essential part of planning, yet many of these same goals may be used as standards in the process of control. Also, corrective action often includes a refinement or revision of plans. Like all the other phases of administration, control is closely interwoven into a complicated matrix. For practical analysis it must be treated separately, and yet in doing so there is always the risk that someone will forget it is really only a part of the total process.

Steps in control process. The administrator is interested in control of a large diversity of things. He wants to be sure that individual and departmental output is of satisfactory quality and volume and is completed when needed. He wants to keep all sorts of costs in line: payroll, materials, supplies, financial, services, and a wide range of intangible costs not directly reflected in the financial records. He wants to be sure that resources—people, buildings and equipment, inventories, accounts receivable, et cetera—are carefully acquired, properly protected, and effectively used. If he is responsible for several separate activities, the areas needing control are, of course, multiplied.

It is impractical to discuss here specific controls for such a diversity of things. The basic steps in any control situation, however, can be set forth, and suggestions made that will be useful in handling a great many individual problems. Here again it is the basic or general process of administration with which we are primarily concerned.

There are three essential steps in any control process:

1. Setting standards at strategic points,
2. Checking and reporting on performance,
3. Taking corrective action.

Setting Standards at Strategic Points

The setting of standards for use in controlling operations is theoretically a simple task. In planning it is necessary to have objectives and goals; these are the results it is hoped to achieve. There will be an entire hierarchy of such goals in any enterprise, as pointed out in Chapter 2. The general objectives of the company are broken down into objectives for individual departments and sections. From these we develop goals for quality, cost, and output, and supporting these

figures should be production-time standards, sales quotas, cash-disbursements plans, schedules, budgets, and even more specific standards for detailed operations.

There can be no argument with the theory that these objectives and goals become the standards for purposes of control; operations have been successful insofar as the goals have been attained. Without this idea of "What is the target?" "What are we striving for?" control makes no sense. Once planning has established these goals, it might appear that control could begin with the process of checking actual results against them.

In actual operations, however, there are at least two important steps that should be taken before attempting to compare actual operations with standards. (1) If the control is to have an effective influence on performance, the administrator should make sure that the goals are properly identified with individual responsibility. (2) Also, the administrator will find it impossible to review all aspects of performance, and consequently must select certain points that will give him an adequate indication of what is going on with only a limited expenditure of his time. The artful answers to these questions lie at the heart of good control systems.

Tie control standards to individual responsibility

The control of expenses, of governmental relations, of recruitment of high quality salesmen, or any other activity becomes potent only when somebody does something about it. For example, knowing that telephone expenses are running above the budget or last year's figures doesn't do much good as long as the item is treated as a general overall expense. As soon as responsibility for the increase can be assigned to specific individuals, however, there is a much better chance that corrective action will be taken.

Clear-cut organization will, of course, aid in locating the individual or individuals responsible for meeting a specific objective or standard. If duties have been clearly defined, it should be a relatively easy matter to identify the people who are concerned with the activity that is to be controlled. The degree of decentralization may be somewhat more difficult to discover, and yet this, too, is significant for control purposes. It will be unfair and ineffective, for example, to criticize a branch warehouseman for making a lot of long distance telephone calls if his supervisor has instructed him to place all requests for additional shipments by phone instead of by mail.

Similarly, there is little to be gained by asking a department store buyer to help control advertising expense if decisions regarding amount of space and its use for different products are made by the merchandise manager. Recognition of such partial decentralization has led some department stores to allocate to the various commodity sections only those expenses that are authorized by the section manager. These are known as his controllable expenses, and the difference between sales and controllable expenses for the section is called "contribution" to overhead and profit. Standards are then set for the monthly and annual contributions of the section and for the principal items of "controllable" expenses, whereas the standards and the responsibility for overhead expenses are related to the store executives who make the store-wide decisions concerning them.

The practical and inevitable limitations on the authority that can be granted to an individual in an enterprise (see Chapter 10) should, of course, be recognized in appraising performance.

There will be some objectives, particularly those of an intangible nature, such as employee morale or customer good-will, that are hard to pin down to individual executives. Perhaps the most that is feasible will be to see that certain measures are taken that contribute toward these objectives. The fact that in certain situations tying control standards to individual responsibility may be difficult in no way reduces its significance as a principle for effective control. Instead, we may have to admit that in these situations there are practical limits to which we should try to carry control.

Concentrate on strategic control points

Need for control points. In a department or enterprise of some size the total number of objectives and standards involved in the work of all the individuals is very large. B. E. Goetz points out:

> Quality control involves an almost unbelievable number of standards. Consider dimensions alone. A power shovel or an adding machine contains approximately a thousand parts. Every hole in each part has depth, diameter, angle of axis with respect to each of two surfaces, and has distance of center from each of two edges. If the hole is tapped, further dimensional standards fix size, shape, and pitch of threads. Every flat surface requires three dimensions to locate a single point, two angles to give the position of the surface, and various dimensions to prescribe its perimeter. Curved surfaces are more involved. Finally, all dimensional standards are double: an upper and a lower limit within which the dimensions must fall or the part be rejected. All these dimensions are usually given on drawings but must be further implemented with fixtures, tools, gauges, and directions with respect to machine settings. To these dimensions must be

added specifications as to composition, again fortified by tolerances to accompany each standard. There yet remain standards of finish and of performance: colors, smoothness, grain, hardness, toughness and strength.[2]

Goetz goes on to point out that, in addition to quality standards, there will be standards for the quantity of goods to be produced in various periods, a variety of cost standards expressed both in physical and dollar units, and standards covering the maintenance and use of various kinds of assets necessary for the production of the item.

While the individual performance standards in office and sales work may not be quite as detailed or precise, they are still numerous and diversified. For every activity there will be standards, in somebody's mind if not actually written out, for achievement, cost and investment. For instance, a cashier's office will have standards of achievement in terms of service and accuracy; standards for payroll, supplies, and other expenses; and standards for inventory, fixtures, and other investments.

It is impractical for an executive to attempt to check the performance of activities under his direction against all these numerous goals. The time and effort required to do so would be staggering. Especially as an executive moves up in the administrative hierarchy and has a correspondingly wider range of activities under his direction, such minute control becomes an impossibility. Consequently, it is necessary for the executive to concentrate on certain points in the operation, or composite figures, which it is hoped will indicate how well a considerable number of standards are being observed. Even at this limited number of control points sampling and other devices may be necessary to keep the burden of control within reasonable bounds.

The particular points in a flow of operations that are used for control should fit that specific situation, as the following examples will show.

Quality control points. The nature of control points is well illustrated in quality control. A small baking-powder company, for example, tests the quality of its products by taking a sample from each batch of powder that is mixed and using it to bake biscuits; if the biscuits rise satisfactorily and the production manager does not have a stomachache after his lunch at the plant, it is assumed that the standard mixing formula has been followed. A single inspection of the finished product is also used by a radio manufacturing company

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[2] *Management Planning and Control*, pages 99-100. Copyright 1949. Courtesy of McGraw-Hill Book Co. See also Chapter 5 and pages 233-235 in the same book.

(really an assembly operation). The finished chassis is tested after all the parts are put on and the wiring is completed. If it works it is placed in a cabinet and shipped to the customer; if it doesn't, it is sent to a special department where the various parts and circuits are tested and the difficulty corrected.

Automobiles are also tested at the end of the assembly line to make sure that the engine, brakes, lights, and other features work properly. Yet, few of us would want to buy a car if this was the only inspection point, because defects might exist that would cause trouble only after several thousand miles of driving. Partly for the reason that *defects may be covered up*, there are frequent inspections in the manufacture of airplanes, bombsights, and other delicate instruments.

Another consideration in establishing inspection points is the possibility of *catching defects early* before expenses are incurred on a product that will have to be scrapped later. Thus, if it costs ten dollars of direct labor to fabricate a part, and during the course of a week a raw-material inspector could catch faulty material for, say, fifteen parts that would later have to be discarded, his work each week would save $150 in direct labor. Even if it cost $100 a week to maintain the inspector, there would still be a net gain of $50. Of course, any change in salvage value or possibility of reworking the material would modify the gain attributable to the early inspection.

In elaborate manufacturing operations the setting of inspection points becomes a very tricky question. Machine operators and foremen will catch many errors themselves. Inspection at some points is simple and quick, while at others it may seriously interfere with production operations. Sampling may be adequate at one stage, whereas 100 per cent inspection is needed at another. There are all manner of testing machines and automatic controls, from crude scales to electric eyes. This poses a nice question of what combination of inspection and other controls at various points will provide the desired quality at a minimum cost.

Control through approval of payroll changes. Quite a different example of the use of control points is found in the practice of some executives' insistence upon personal approval of all payroll additions or changes. It is not uncommon in units of several hundred people that all changes in pay rate, if not the actual pay checks themselves, must carry the written signature of the chief executive.

Probably one of the most extensive uses of this device was made by Mr. Harold L. Ickes when he was Secretary of the Interior and admin-

istrator of half a dozen government agencies. Over most of this widespread domain—involving thousands of additions, promotions, in-grade pay increases, and separations from the payroll—Mr. Ickes exercised personal control. At first glance it looked as though here, indeed, was an extreme example of governmental red-tape.

In actual operation the practice was not unduly burdensome because the "daily order" on which such changes were listed received prompt attention and questions were raised only for good cause. Mr. Ickes used the device as a means to keep in touch with what was going on. A number of payroll additions in a division, the work of which was presumably contracting, naturally required an explanation. High turnover in another division might be a sign of poor morale, and so forth. Few major changes in operations can be made without shifting people about, and hence the payroll may serve as a strategic control point.

Control of correspondence. Another governmental practice, and an irritating one to business men who take on special assignments in Washington, is the control over outgoing correspondence. In addition to limited delegations on permission to sign outgoing mail, so that most governmental executives find themselves drafting letters for someone else's signature, it is not uncommon to encounter a central legal review. There is little that is more annoying to an operating executive, the traditional man of action, than to have a bright young law school graduate from the central legal staff turn up with a letter that should have been delivered two or three days before and say that there are some possible legal implications in the document that he would like to explore. In some agencies these so-called legal implications actually include operations questions, and thus there is very broad central staff control on outgoing correspondence.

It is quite understandable why such a control point is used. Special care is needed with public statements of governmental officials because these statements carry with them much of the prestige and authority of the government itself. Moreover, the government must be careful to be consistent in its actions in dealing with different people, and a "man of action" who has not had experience with the ramifications of apparently simple governmental decisions needs some control on his decisions. We see, then, why the top administrator, who is responsible for the agency's activities, may decide that a second look at outgoing documents is a good way to keep a check on what is happening.

A somewhat unusual practice that illustrates the use of critical control points is that of the president of a small and highly profitable company, who regularly opens and distributes the morning mail. He started this custom years ago when he and his partner were the only employees of the company, and he has continued it even after the company's sales cover the entire country. He comes to the office half an hour before the normal opening time and goes through all incoming correspondence, often reading those letters that are not of purely routine nature. When he goes on a vacation or on an extended business trip, he insists that some one of the other executives take over this duty. His explanation for performing what in many companies is considered to be one of the most elementary duties is that it enables him to keep in close touch with what is happening in all departments. Customer complaints, questions by suppliers on the payment of bills, important proposals that he has not yet heard of, and many other points are likely to become evident in this correspondence. Actually, he peruses the content of only a sample of the total incoming correspondence, but he happens to like this way of keeping in touch with what is going on.

These examples serve to illustrate the nature of strategic control points. The particular points mentioned in the examples have no outstanding merit; in fact, they will be desirable in only a few types of situations. The idea of picking strategic points at which to exercise control, however, is highly important to effective administration.

Guides for selecting strategic control points. The literature on applied management abounds with descriptions of control schemes that have been found effective in certain situations. The fundamental steps in control are almost always the same, and a large part of the difference in these schemes is in the particular strategic points found useful and in the nature of the reports prepared. Unfortunately, there appears to be no simple rule for identifying good control points. The most that can be said is that those that have proved of real value often exhibit one or more of the following characteristics. Strategic control points should be (1) timely, (2) economical, (3) comprehensive, and (4) balanced.

Control points should be *timely* in that they help spot significant deviations when control needs to be exercised. The example of an early quality inspection before additional processing costs are incurred represents a whole class of control points. Department stores often set up "open to buy" limits designed to regulate buyers' activi-

ties before firm commitments to purchase merchandise are made. Similarly, many companies require the approval of a construction or research project before detailed plans or commitments can be made.

Very similar are those controls designed to stop action before serious damage is done. Thus the time to check the hiring of wrong people or placing them in the wrong positions is when the initial selection is made, rather than after they have been put on the job. Standards of "preventive maintenance" are designed to avoid machine breakdowns when the whole flow of work through the department will be disrupted, other schedules thrown out of joint, and man-hours lost waiting for repairs to be made.

The possibility of covering up defects if occasional checks are not made while the job is being done has already been illustrated in quality control. This has a parallel in other operations where brief delays and other sources of inefficiency may accumulate if a check is not made often enough to pick up the small errors that in total loom large but are hard to identify later. Clearly then, timeliness is one aspect of a strategic control point.

It is desirable that control points permit *economical* observation and report. For example, sales data must be reported for accounting purposes, and it is quite simple also to classify them by salesmen for control purposes. In many other instances, however, the control data are not ready-made; then the expense of special inspection and reports must be considered.

There are some situations in which measurement of results is so difficult or expensive that the control is placed on the process instead. For instance, it is difficult to measure the wisdom of a particular decision by the purchasing agent; so, often emphasis is placed on making sure the agent went through certain steps, such as developing clear specifications, securing a required number of bids, and the like. Similarly, in controlling the quality of some products and services it may be more economical to establish controls over the process than attempt to test the final product.

Still another consideration relating to economy is whether the control will seriously retard the operations. A major objection to the review of outgoing correspondence mentioned in connection with government operations is the delay that often results. For this reason most businesses permit people to go ahead and send out their letters, but may provide for reviews of carbon copies. Similarly, the investigation of the credit standing of a customer after an order is received,

may seriously interfere with delivery service; hence it is desirable to establish credit limits before the order is received; and these limits once established may guide the extending of credit for a whole succession of orders over a period of a year or more. So, a second consideration in picking strategic control points is the direct and indirect expense involved.

Especially for executives in higher-level positions, at least some of the control points should provide *comprehensive coverage*. Control points that summarize or consolidate several operations are useful for this purpose. Over-all expense figures are of this nature, and these may be expressed as a ratio to volume. Such ratios need not be only in dollar terms; often man-hours per ton of output, or pounds of cotton per dozen sheets will provide the really significant operating data, unadulterated by price changes. If there is some general norm applicable to various operations, results may be expressed in relation to this; for example, modern salary administration often provides a range of salary for each job and it is fairly easy to show how all salaries in a division or department compare with this range or its midpoint.

Some of the comprehensive controls deliberately attempt to check activities at a bottleneck through which everything must pass. Mr. Ickes' control of payroll changes was of this nature. In a small business it is not uncommon for one or two executives to sign all checks, and in larger businesses sometimes the department head approves all expense vouchers.

For large enterprises, however, top executives must rely primarily on summarized data. For example, the type of comprehensive financial figures watched closely by the executive committee of duPont Corporation for each of its operating subsidiaries is indicated in Figure 42. Such comprehensive control points tend to cover up significant operating detail and there may be some delay in assembling the information, but for general control of decentralized operations these limitations usually are not too serious. In any event, the possibility of establishing some sort of comprehensive controls should be explored when picking strategic control points.

Control points should be selected to promote *balanced* performance. Anyone who has dealt with piece rates knows that a strong incentive on volume of output is likely to have an adverse effect on quality of production and care of equipment. The same tendency is found in many areas. If close controls are established over expenses, attention to the quality of the service or product is likely to be

neglected; contrariwise, if an executive is being pressed for high-quality service his expenses are likely to rise. In the sales field, if the controls all center on the orders actually received, some salesmen will neglect the cultivation of new prospects and push for an immediate order even though it jeopardizes customer good will.

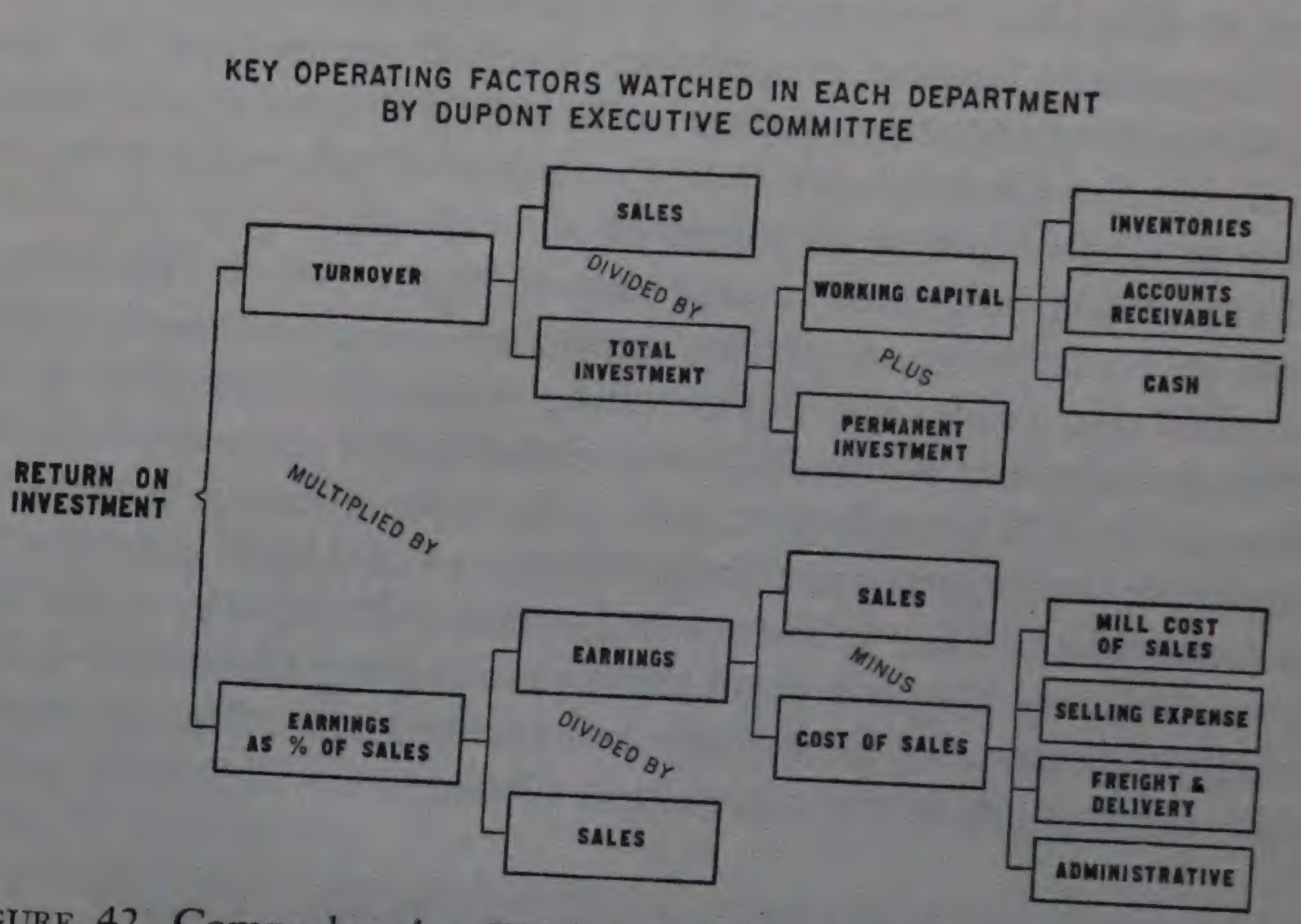

FIGURE 42. Comprehensive Financial Control Points Used by duPont Company. See "How the duPont Organization Appraises Its Performance," American Management Association, *Financial Management Series, No. 94*. A series of charts is prepared for each product department, showing the above data for the preceding ten years, monthly data for the current year, and a forecast for the balance of the year.

Controls over only part of the total duties of an individual often emphasize the tangible results that are relatively easy to measure and neglect the intangible achievements. For example, accounting figures of expenses and income may receive considerable attention, whereas executive development, which is very difficult to measure, is glossed over. To guard against such imbalance it is necessary to establish controls over the intangible and other aspects of performance that are not covered at other control points. Perhaps the intangible items can be covered only in periodic appraisal of the executive's performance (see Chapter 19) or through personal supervision. Whatever the method of observation, no system of strategic control points is complete without adequate provision for balance.

Summary. The first step in administrative control is setting standards at strategic points. These standards come directly from the objectives, deadlines, specifications and other goals established as an integral part of the planning process. For practical purposes, however, it is usually necessary to (1) make sure that the standards are stated in terms of individual responsibility so that the administrator will know who to praise or blame for deviation of actual results from the standard; (2) pick out strategic points in the whole flow of operations that will enable the administrator to keep track of what's going on without taking time to check on all phases of all activities.

Considerable judgment is necessary to figure out the best control points in a particular operation. Important considerations in picking these strategic points are (1) catching important deviations in time to take constructive action, (2) practicability and economy in making observations, (3) providing at least some comprehensive controls that consolidate and summarize large blocks of detailed activities, and (4) securing a balance in the control so that some aspects of the work, such as building long-run good will or developing executives, will not be slighted because of close controls on other phases. Setting standards at the right points is the foundation of simple and effective control.

Checking and Reporting on Performance

The second basic step in the process of control is to compare actual performance with the standards and goals already established. There are questions here of when the checking should take place, by whom it should be done, and how it should be reported so as to facilitate corrective action.

Use required confirmation sparingly

Most executives keep the control over certain matters in their own hands; that is, they insist on checking personally before the work is permitted to proceed. For example, before credit is granted to a customer the treasurer may insist on examining the credit file to make sure that the various credit standards are being observed. In many companies price changes can be made only with the approval of the top executive. Even more common is insistence that expenditures above the budget, transfers and promotion of personnel receiving a salary above, say, $5,000 per year, or exceptions to establish methods

and procedures be approved by the executive who is exercising the control. The executive feels confident that the work is done right because he has checked it before it moves on to the next step.

Under some circumstances the duty of checking and giving prior approval may be delegated to men who have special control responsibilities. The use of inspectors in a plant who must approve raw material or parts before they are used in processing is quite common. Occasionally a controller or some other man charged with expense control may be empowered to authorize exceptions to the budget. Similarly, the personnel officer frequently checks personnel actions for conformity with standards and policies before they become official. Such men are said to have concurrent authority. As pointed out in Chapter 11, this arrangement is likely to lead to serious difficulty unless the basis upon which the control agent withholds approval is clearly defined.

The chief reason for using required confirmation, instead of a subsequent check, is the added assurance that standards will be maintained. On the other hand, it is a cumbersome arrangement that may delay action, and when concurrent authority is used this may be a source of internal friction. For these latter reasons it is wise to use such prior review sparingly.

Not infrequently what appears to be an insistence on confirmation is really a reluctance of the executive to delegate authority because he is unable to clearly state the standards of performance desired. He is not sure just what he does want his subordinates to do, and consequently he has them move only a step at a time and come back for further directions before carrying the project to completion. In other words, some of the planning still remains to be done, and the executive feels that it is unwise to turn this planning over to subordinates. When working through a new and important problem this may be a very practical procedure. For more repetitive or less important problems, however, it suggests an inability to plan and a lack of confidence in subordinates.

Concentrate on exceptions

A large part of the activities of any enterprise must proceed without waiting for the confirmation of some higher executive. Control here is concerned primarily with appraising current and completed action as a basis for regulating future activities.

This appraisal can be simplified by concentrating on unexpected or unusual results. As long as operations take place according to plans and operating conditions are as forecast, there is no need for corrective action. It is the exceptions—for example, low output, high expense, large sales orders, delayed raw materials, jump in labor turnover and the like—that call for special attention.

Consequently, the busy executive often asks for reports on only the exceptional matters. He then assumes activities are proceeding normally (as planned) unless a report to the contrary is received.

Such a reporting scheme will work well only if plans are clear to both the executive and his subordinates, and if there is a definite understanding as to responsibility for reporting exceptions. Rarely is it wise to place complete reliance on this arrangement; some comprehensive data or personal observation should be used to keep tab on results. But there may be a large array of standing plans and detailed activities to which this "exception" reporting applies.

Reporting of exceptions is, of course, an integral part of "limited decentralization" described in Chapter 12. Under limited decentralization subordinates must refer exceptional operating problems to their senior for decision. Reporting exceptions has broader application, however. Often subordinates are authorized to take action, but then they are expected to keep the supervising executive informed. Or, a staff man who is checking up on an assigned area for a senior executive may report only exceptional conditions. Even when a full report must be submitted regularly, the interpretative comments usually should concentrate on exceptions. We have here an important way of simplifying the entire reporting process.

Observe personally for thorough understanding

Use of direct contacts. Personal observation should always play a part in checking on results. Military men have long recognized the value of having commanding officers either located close to the scene of action or at least making frequent visits so that they can "see for themselves." One very able president of a manufacturing company insists on spending two weeks every year travelling with salesmen and calling on customers himself. Even though this causes inconvenience in the head office, the president believes he can get information regarding the acceptability of the company products, effectiveness of advertising, salesmen's reactions to training schemes, and other facts not adequately revealed in written reports.

The general manager of a leading department store feels much the same way. Every morning he takes a walk through the store observing the number of customers, display of merchandise, behavior of sales people, and also chats informally with employees at all levels in the organization. To reduce the interference with his other work he will take occasional telephone calls, or he may talk with some visitor as he makes his tour, but at least for one hour his office is wherever you find him. There is no doubt that this man knows what is going on, and his informal visits also have a good effect upon employee morale.

Benefits of personal observation. Just what an executive learns from direct observation and personal contact is sometimes difficult to define. A realistic mental picture of the operating situation, an acquaintanceship with the people involved, the tone of voice and confidence with which statements are made, the reaction of people to suggestions, the ease and informality of asking questions and giving information, all add up to an understanding of what is happening that is impossible to get through written reports.

Oral reports provide some, though by no means all, of the advantages of direct observation. They provide an opportunity to observe personal reactions and answer question on points that are not made clear. If an informal atmosphere is maintained, it is possible to draw out more about the feelings and motivations of people than will be found in the typical written document.

There is no completely satisfactory substitute, especially in appraising intangibles, for direct observation and personal contact. It should be a part of every control system. Unfortunately, this method of checking on performance is time-consuming. It is a physical impossibility for an executive directing the work of a large number of people to personally inspect the operations or even the results at strategic control points. Consequently, except for first-line supervisors, personal observation must be used primarily on a sampling basis, or for information on certain types of performance only. And being a limited sample, the executive must be careful to supplement his own observations with more comprehensive data.

Nevertheless, the executive who has been in the shop this morning, or talked personally with customers last week, is in a much better position to understand and appraise other reports on performance that he receives. Moreover, his personal contact with people on the firing line usually helps in motivation.

Design reports for action

Promptness. The promptness of reports can add significantly to the effectiveness of control. This is clear when some undesirable practice is going on. For instance, if the spoilage rate is high or if one section in the office is working overtime because of a failure to transfer workers from other sections, the sooner this is discovered and corrected the greater will be the saving.

Prompt reports also help in diagnosing the difficulty. A report showing high delivery expenses for the month of January that is not received until the last week in February has lost some of its usefulness. When the executive tries to find out the cause of the high expense and talks to the delivery foreman, the chances are that the foreman will cast about in his own mind for possible excuses such as snowstorms and breakdowns. Whereupon the executive tries to remember what happened and may be able to reply that the snowstorm hit on Saturday and was cleared up by the first of the week, and that the breakdown occurred in December. This give and take is likely to continue for a time until the executive finally says, "Well, keep your eye on it, John, and see if we can't do better in the future."

In contrast, when the report is received two days after the completion of the period, the foreman probably really does remember what caused the difficulty and he and his supervisor can discuss constructive plans for avoiding it in the future. The longer the lag between the time at which events take place and the time at which the report is made and corrective action initiated, the more difficult it is to get at the real source of the trouble.

With promptness of reports often comes some inaccuracy. The people preparing the reports may not have time to reconcile figures from two different sources, to make special adjustments, to go back and look for possible errors. Generally this type of error is not large enough to cover up the salient features, and for control purposes preliminary figures quickly supplied are the most useful. The revised figures can be prepared later as they are needed for accounting purposes or detailed analysis.

The executive who wants the prompt reports should recognize that they are necessarily preliminary in nature and not heap unreasonable criticism on the head of the report clerk who would probably prefer to take two weeks longer and make a report that needs no revision. Happily, modern communication devices and office machinery are

making it easier to prepare reports that are both prompt and reasonably accurate.

Content of report. There is a temptation to think that the more information a report contains the more useful it is for control purburdensome to prepare. The salesmen, the foremen, and most other people primarily concerned with getting results find the preparation of reports a distraction, particularly if they are complex or detailed.

This is no new problem for we find the Duke of Wellington writing from Spain about 1810 to the British Secretary of War, Lord Bradford, as follows: [3]

My Lord,

If I attempted to answer the mass of futile correspondence that surrounds me, I should be debarred from all serious business of compaigning.

I must remind your Lordship—for the last time—that so long as I retain an independent position, I shall see that no officer under my command is debarred by attending to the futile drivelling of mere quill driving in your Lordship's Office—from attending to his first duty—which is, and always has been, so to train the private men under his command that they may, without question, beat any force opposed to them in the field.

I am,
My Lord,
Your obedient Servant
(WELLINGTON)

The selection of strategic control points reduces the need for voluminous reports. The report should, of course, contain a *comparison* of actual performance with the standards set at these points. In addition, the report will be more useful if it contains an *explanation* of any wide deviation from the standard. Finally, it is often desirable that the report contain *proposals* for corrective action, if any is called for. However, such recommendations may be omitted if they seriously interfere with the promptness of the report or if correction of a difficulty is clearly outside the scope of responsibility of the person preparing the report.

Method of presentation. Reports should emphasize the outstanding features of the performance being reviewed and the spots where corrective action is needed. All too often the man preparing the report prefaces it with a technical explanation of a statistical computation or a series of qualifications, because these are uppermost in his mind at the time the report is put together. Instead, the report should be pre-

[3] O. L. Nelson, *National Security and the General Staff*. Infantry Journal Press, 1946, page 465.

pared from the point of view of the man who is to receive it, and if explanations or qualifications are included at all they should not be permitted to interfere with the principal message conveyed.

Statistical or financial information can often be presented forcefully in graphic form. Some companies use large wall charts; a few have large chartrooms where executives may find the latest information portrayed on a whole series of charts. Such special facilities are not necessary for the use of graphic presentation, however; an ordinary hectograph or ruler and a few colored pencils is all the equipment that is needed to give a clear visual presentation. A series of perhaps a dozen charts showing current performance as against past trends at strategic control points will become one of the most valued tools of almost any executive.

Explanatory material and supporting statistical data usually should be brief and clearly related to any charts that are used. When only qualitative data are being presented, it is usually wise to present a summary of high lights before the detail is given. This is but another way of helping the executive who received the report to grasp quickly the important facts. Then, if he wishes, he can proceed to examine the supporting information, and perhaps ask for even more detail; but he is relieved of the burden of sifting through a large mass of information to discover the crucial features of past performance.

Summary. Most executives will find it wise to use a combination of methods for checking on performance. At a few very important points they will require their own confirmation, or at least that of an independent expert, before action proceeds. For most of the activity, however, they will rely upon a series of prompt and well-designed reports that will enable them to see quickly a summary of recent operations and the exceptions that call for their further attention. To really understand what lies back of these reports and to appraise the more intangible aspects of operations, the executive will make occasional visits to the scene of action and personally observe and confer with many individuals regarding current methods and results. These methods of checking performance against standards at strategic control points enable the executive to keep his fingers on the pulse of operations.

Corrective Action

The first two basic steps of control—setting standards at strategic points and checking actual performance against these standards—are

really preliminary. They may be done to perfection and yet no control result unless all this checking has some influence on the behavior of people performing the actual operation. In other words, the third step, corrective action, is necessary before there is any real control.

Comparison of actual results with the established objectives and standards will almost always reveal some places where the results have not come up to expectations. As soon as this is discovered it is the duty of the administrator to take steps either to correct the past action or, more likely, to bring similar action in the future closer to the desired goal. Broadly speaking this corrective action will be brought about by some combination of the following steps:

1. Adjust physical and external situations,
2. Review the direction, training and selection of subordinates,
3. Modify plans where necessary,
4. Improve motivation.

Adjust physical and external situations

Differences between achievement and plans often result from shifts and unexpected obstacles in the work situation. The operating plans and goals were, of course, based on forecasts covering conditions under which the work would be performed, and every executive must spend a significant part of his time working with these environmental factors. He will attempt to make the conditions conform to these forecasts, or be even more favorable for achieving the goals.

The action of an executive to maintain these working conditions takes many forms. He tries to see that the work arrives from other departments, or perhaps from material suppliers or customers, in the form and at the time anticipated. If breakdowns occur in physical equipment—typewriters, automobiles, calculating machines, office furniture, processing equipment, et cetera—he sees that repairs or replacements are made with the least interruption to operations. He is concerned with the maintenance of satisfactory working conditions; he expedites various supporting activities, such as direct-mail advertising for salesmen or ready availability of parts for repairmen. In a variety of other ways he seeks to create the setting in which achievement of goals is unobstructed.

Review the direction, training, and selection of subordinates

A second broad area of corrective action is making sure that the individuals assigned to the work are properly qualified and directed.

All too often failure to meet standards can be traced to inadequate direction. Hence the executive needs to review again with his subordinates just what is wanted and how they should go about accomplishing it. There should be no second time for "Oh, I didn't understand."

The difficulty may run deeper than a misunderstanding of instructions. Perhaps the man whose performance needs to be improved lacks the necessary training and experience for his assignment. The corrective action should then consist of providing this training as rapidly as possible, perhaps giving the man temporary assistance in the interim. Generally, if the man can learn to handle the assignment within a reasonable period of time, he should be left on that job. It was management's mistake in assigning him the work for which he was not yet prepared and in the interests of good morale the man should be given an opportunity to show what he can do when properly trained.

Nevertheless, there will be occasions when experience shows that a man lacks some of the basic abilities needed to perform a job, or when it is impractical to keep the man in a position while he is growing up to it. A transfer of the man to work for which he is qualified and his replacement by a more capable individual is the positive action required, provided such transfers can be made without serious disruption in morale.

Modify plans where necessary

Corrective action usually includes at least some revision of plans. Many external forces cannot be adjusted by executive action, notably sales orders, competitive prices, availability of labor and materials, and similar factors influenced by general business conditions. Consequently, there is need for continuing appraisal of results in terms of these changing conditions, and adjusting plans accordingly.

Similarly, breakdowns or other interruptions to operations may call for a revision of schedule and perhaps different methods and reassignment of the work. When it is discovered that a particular individual is not able to carry out his assignment, the lack of a satisfactory substitute or the upsetting effect of his transfer may make an adjustment in the work assigned to him more practical than a transfer to a different position.

Moreover, a careful review of operating experience may suggest ways that standing plans may be improved. Standards may be too high, policies need qualification so as to avoid frequent exceptions, or

methods should be adjusted to make better use of existing facilities and personnel. If operating results are much better than the established standards, perhaps the reasons for the achievement can be discovered and introduced as a standard practice. For special projects and other nonrecurring activity, experience may show which mistakes to avoid and which measures proved to be particularly effective. These should be noted as guides to planning of similar projects in the future.

Such revision of plans is an essential part of corrective action. At the same time it starts anew the administrative cycle of planning, direction, and control. The revised plans must be communicated to those who are responsible for executing them, and provision made for checking actual performance. Any dynamic enterprise should anticipate that control will bring with it revision and adaptation to meet changing conditions.

Improve motivation

Along with creating the proper work situation, making sure subordinates are adequately prepared and instructed, and revising plans where necessary, there is a fourth major phase of corrective action—the improvement of motivation. Operating achievements may not have come up to standard, at least partly because the people doing the work didn't put forth enough effort. A desire to work with others in furthering the purposes of the enterprise is necessary if any work is to be done, and this matter of willingness to strive is particularly important when improvements in results are sought. Suggestions on this very important issue of improving motivation will be found in Chapter 25.

Summary

Once plans are laid, necessary resources assembled and directions issued, the executive must take action to assure that performance conforms to plans. Three steps are involved in this control process: (1) setting standards at strategic points, (2) checking and reporting on performance, and (3) taking corrective action.

Control standards come directly from the objectives, specifications, and other goals developed in the planning process. To be most useful in control, however, these goals should be tied to individual responsibilities. Moreover, control should be simplified by concentrating on

strategic points. Selecting these strategic points is the crux of simple and effective control; they should provide timely, economical, comprehensive, and balanced checks.

Comparison at the strategic points of actual performance with the control standards should be done through a combination of methods. Prompt and well-designed reports should cover the bulk of operations. These should be supplemented by personal observation to secure thorough understanding. For some crucial operations, a separate review and confirmation may be required before action is allowed to proceed.

When this comparison of performance with the strategically selected standards shows significant deviations, corrective action is necessary if the control is to have any real influence on results. Corrective action normally consists of adjusting the physical and external situation to permit the desired action; reviewing the direction, training and selection of those doing the work; improving motivation; and modifying plans where necessary.

The control process either completes the task of the executive or, more likely, shows the need for further action and thus starts another administrative cycle of planning, direction, and control.

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CHAPTER 24

BUDGETARY CONTROL

BUDGETARY CONTROL can be one of the most effective tools of administration. When properly used it aids in planning and coordination, as well as in control. Some of its supporters believe that budgetary control is the epitome of modern management; while this is an overstatement, no well trained executive should lack an understanding of its benefits and limitations.

The procedural aspects of budgeting have been ably covered in books on the subject and need not be discussed here.[1] Since our interest is in the basic processes of administration, it is more appropriate that this chapter concentrate on (1) the way budgeting assists in planning, coordination, and control; and (2) the conditions that are necessary to obtain these benefits of budgetary control.

Fundamental steps in budgetary control. There are three essential steps in every application of budgetary control:

1. *Statement of plans for a future period, expressed in specific numerical terms.* More precisely, the budget consists of a statement of the anticipated *results* of operating plans, rather than a description of the activity. These results are expressed in some common denominator, usually dollars, although occasionally in man-hours, pounds of material, or other physical units.
2. *Consolidation of these estimates into a well-balanced program.* The figures for the various activities and divisions covered by the budget must be added together, checked for consistency and workability, and reviewed in terms of over-all objectives.
3. *Comparison of actual results with the budget and adjustment*

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[1] See, for example, J. R. Bartizal, *Budgeting Principles and Procedures*, rev. ed., Prentice-Hall, Inc., 1950; J. C. Heckert, *Business Budgeting and Control*, Ronald Press Co., 1946; J. H. MacDonald, *Practical Budget Procedure*, Prentice-Hall, Inc., 1939; F. H. Rowland and W. H. Harr, *Budgeting for Managerial Control*, Harper & Brothers, 1945.

of plans as shown to be necessary. As in any control technique, a report showing deviations of actual operations from standards is significant only insofar as it provides a basis for corrective action.

There is an ever-present danger that the mechanics of budgetary control will receive so much attention that one or more of these fundamental steps will be pushed into the background.

Variety of situations to which budgetary control may be applied. The budget idea has numerous applications. One large utility company, for example, has detailed coal budgets showing in tons the purchase, storage, transfer, and consumption for each of its power plants and for the system as a whole. Somewhat simpler purchase and production budgets for individual commodities are prepared by many companies. In times of labor shortage or rapidly changing volume of activity, some firms prepare manpower budgets expressed in terms of different types of labor.

The chief reason for preparing such budgets in units other than dollars are (1) the dollar figure is too general and may cover up significant differences in size or quality, and (2) price changes are confusing when plans really call for physical levels of activity. To tie into over-all budgeting, however, it may be necessary to prepare figures in dollars, as well as physical units.

The most common type of budgeting in business deals with capital expenditures. Large sums are often involved and the board of directors may insist upon approving budgets before commitments are made. When budgets are used, all the anticipated projects for a period are summarized and presented at one time. This gives the board a better idea of the total sum involved and also avoids the necessity for separate consideration of each small project. Under typical procedures, the board relies upon the treasurer or controller to see that actual expenditures do not exceed the approved budget. Unexpected needs may, of course, lead to a revision of the budget.

Cash budgets, covering all receipts and disbursements, are more inclusive. They differ significantly from profit-and-loss budgets because of changes in the size of inventories, accounts receivable and other assets, and in liabilities. They are almost indispensable to a company that has to operate on a narrow margin of cash without upsetting the efficient flow of work.

The most useful type of budget from the point of view of general administration is the profit and loss budget. Since it normally covers

all the profit and loss accounts, all of the major activities of the enterprise are included.

These different examples of the use of budgetary control indicate how the basic idea may be applied to different phases of a company operation. Since the profit and loss budget is the most inclusive and the most valuable for purposes of general administration, it will be the subject of more detailed analysis in the balance of this chapter. Nevertheless, most of the points raised will also be applicable to other types of budgets.

Benefits of Budgetary Control

The term budgetary control is somewhat misleading because budgets are as much a planning and coordinating device as one of control. In seeking to understand the benefits that may be secured from budgetary control all three phases should be considered. These will be discussed in terms of:

1. Improvement in planning,
2. Aid in coordination,
3. Comprehensive control.

Improvement in planning

Stimulates thinking in advance. The preparation of a budget tends to make an executive anticipate future operating problems and ways of meeting them. The budget usually covers operations for at least several months, and often for a year in advance; and for this entire period the executive is expected to predict his expenses and operating results.

This assignment when conscientiously done shifts the executive's attention from immediate problems to those that are just appearing on the horizon. This forward look often provides an opportunity to avoid trouble and take advantage of unusual opportunities. To be sure, budgeting has no monopoly on foreward planning, but when applied throughout an enterprise it will force some executives to look more carefully into the future than they otherwise would do.

Leads to specificity in planning. For budgeting purposes it is not enough to say that output will probably go up in the last half of the year, or that payroll expenses should go down. These ideas have to be reduced to specific estimates. The increase has to be set at, say, $50,000 per month, and the reduction in payroll at $3,000. Vague,

and often casual, generalities will not suffice; instead, someone has to figure out "how much and when."

The introduction of budgets will not, of course, endow executives with supernatural foresight. Unforeseen events almost always cause actual operations to deviate more or less from plan. The point is that budgeting tends to improve the quality of planning. The necessity for looking ahead throughout the entire budget period and making specific estimates of results usually refines the quality of planning that is done.

Aid in coordination

Promotes balanced activities. Budgetary control contributes to coordination in several ways, the most obvious of which is the balancing of activities. Estimates of operating results will be received from sales, production, purchasing, and other departments. These can easily be checked one against the other to see if one department is planning on a larger volume of activities than the others.

Moreover, when monthly budgets are prepared the timing of activities can be checked to make sure that the sales department is not planning to sell goods before the production department expects to make them available, or that similar discrepancies do not exist. In other words, the fact that the plans of each department are stated in specific and comparable terms makes it easier to secure unified planning.

Encourages exchange of information. The preparation of specific estimates necessary for budgets often leads one executive to seek information from other executives. Especially when the work of one division is dependent upon another, this exchange is likely to take place. For example, the purchasing department must find out what the production department plans to produce, the sales department checks on the time a new product will be available and also gives the production department some idea of prospective demand for the regular products; the training division must find out about plans for additions to the sales force, and so forth.

This interchange of ideas regarding planning contributes significantly to the coordination of the budget plans themselves. It also provides an occasion for voluntary coordination on other matters. As executives of related departments discuss their respective plans, there is an excellent opportunity for one man to suggest minor revisions that will simplify his work and for him to make adjustments

that will aid the other divisions. Most of this give and take may be on matters that do not show up directly in the budget estimates, but still contribute significantly to harmonious action.

Discloses unbalance early. One of the important principles of harmonious action is coordination in the early stages. Mutual adjustments are more easily made if the need for them is known well in advance and particularly if actual operations are not already underway. The emphasis in budgetary control on foreward planning means that lack of balance and inconsistencies are likely to be discovered while plans are still in the formative stages; hence budgeting not only brings to light places where coordination is needed, but it tends to do so early enough for easy remedial action.

Comprehensive control

Provides inclusive standards. Financial budgets normally include all the important accounts in a profit-and-loss statement. In a large enterprise, these accounts will be broken down for several divisions and departments, but all items of income and expense will appear some place. A comprehensive budget shows what all of these accounts should look like if present plans are carried out. The projected accounts can then serve as standards of performance. They show what the persons preparing the budget think should happen.

One of the chief advantages of such standards of performance is their inclusiveness. They cover every activity of the company recognized in the accounting records. While details and intangibles may be concealed, the coverage is systematic and penetrates into every division. No other single control device is so comprehensive.

Uses available reports on performance. Another distinctive feature of budgetary control is that very little special effort is required for the comparison of actual results with the standard. The accounting records will be kept and reports prepared whether or not the budgets exist. Since the control standard, that is, the budget, is classified and expressed in terms of the regular accounts, comparison of the actual results with standards is simple. No additional inspection or reporting system is required. Here, then, is a control device that is at the same time comprehensive in coverage and relatively simple to operate.

Summary of benefits

Budgetary control should be regarded as both a procedural device and a psychological tool of administration. While its concrete form

is in tables of figures, much of its benefit lies in the thinking and relationships that it promotes among executives.

Budgetary control contributes to planning by forcing many executives to think farther in advance and more specifically about the tasks ahead, and how they will meet them, than they would do if there was no need of preparing budgets. Budgetary control is useful as a coordinating device because it leads to the early discovery of lack of balance, and in the inevitable discussion of plans it provides the occasion for much voluntary coordination. As a control measure it is distinctive because of its systematic coverage of such a wide area of company operations, and the relative ease with which actual results may be compared with budget standards. This is an imposing list of benefits.

Requisites for Successful Budgetary Control

The benefits of budgetary control which have just been described are impressive indeed. Better planning, coordination, and control are desired by every intelligent administrator. Unfortunately, these benefits cannot be obtained by merely adding some reports and accounting procedures. Instead, budgetary control must be made an integral part of the administrative process. The more important requisites for successful budgetary control include: (1) managerial planning in terms of budgets; (2) actual use of budgets as a coordinating medium; (3) effective follow-through on current operations; (4) flexibility in budgeting.

Managerial planning in terms of budgets

Plans—not mere predictions. The figures appearing on a budget statement should represent, as nearly as possible, actual plans rather than informed guesses as to what is likely to happen. There is a marked difference between forecasting the weather and planning to do something about it. Likewise, a forecast of sales volume, perhaps made by someone outside the company, represents a different kind of thinking than the budgeted sales figure based on careful plans for sales promotion, direct selling, and customer service. An estimated cost of production figured from trends in price indexes and expense ratios is a different kind of a figure from a budgeted cost based on planned machine loads, material usage, and specific labor rates.

There is, of course, a large element of forecasting in all planning,

but this does not mean that budgeting should rely on forecasts alone. Improved planning as a result of budgeting will occur only if there is insistence that future operations be thought through and the figures placed in the budget be the anticipated result of actual plans for future operations.

Clear-cut organization. The type of planning needed for budgeting cannot take place unless it is clear who is responsible for what. For example, some department stores have had difficulty in the use of budgetary control because of confusion as to who determines the number of sales people to be employed. The departmental buyers have nominal responsibility, but the personnel department makes the day-by-day decisions as to the number of additional people to employ, and the controller sets a monthly maximum figure for selling expense. Under circumstances such as this it is extremely difficult to know who really does the planning, and there is a temptation to be satisfied with mere forecasting. Not infrequently, organization clarification must accompany the installation of budgetary control.

Arrangement of accounts parallel to organization units. Accounting figures serve a number of purposes, such as financial reports and tax records, in addition to their use for internal management. Emphasis on the former uses has resulted in the accounts of some companies being poorly adapted to budgetary control. Inventory figures, for example, may be grouped together and classified primarily in terms of liquidity because of the significance of these facts to creditors; or, payroll records may be set up primarily to facilitate social security and income tax payments and other payroll deductions.

Unless these accounts are also divided according to managerial responsibility, it is hard to take the first basic step in budgeting, namely the translation of plans into anticipated accounting figures. Also, it is difficult to assign responsibility for deviation of actual results from the budgeted figures. Thus, if four different department heads are responsible for raw material and semiprocessed inventory, close budgetary control requires that separate inventory accounts be established for each department. Similarly, payroll, supplies, and other controllable expenses should be allocated to departments whose decisions determine their amounts. Only as the account classification reflects administrative responsibility can budgets serve as a good planning tool.

Active participation by executives in budget preparation. Budget preparation should not be assigned to some central staff unit, nor

delegated by operating executives to their administrative assistants. These people can help in the preparation of budgets, but, unless the operating executives themselves take time to actually think through their future operations and make sure that the figures in the budget reflect this thinking, many of the planning benefits listed earlier in this chapter will be lost. The budget will become "just another set of figures, another report," and it will be a burden rather than an aid to the executive.

Moreover, unless the operating executives participate in the preparation of the budget they will be loath to accept the budgets as reasonable goals; they will not be so strongly committed to achieving budgeted results; and they will feel free to criticize the budget as "wild guesses" or "stupid mistakes" if actual results are not as favorable as those anticipated in the budget.

Summary. Budgeting tends to improve planning because it stimulates thinking in advance and leads to specificity in planning. To obtain these benefits, however, the budget must reflect actual plans and not be merely sideline predictions; the organizations should clearly indicate who should be responsible for preparing each part of the budget; accounting classification must parallel organization units so that the plans of the several departments can be translated directly into the appropriate account; and lastly, the operating executives themselves must actively participate in the preparation of the budget if it is to improve their planning and is to be accepted as a reasonable goal for current operations.

Use as a coordinating medium

Estimates carefully fitted together. Whenever over-all budgets are prepared, it is typically assumed that they have been geared together, and hence assist in coordination. An executive using budgets should make sure that this is a true assumption, for it is entirely possible to add together estimates from several departments, even though each was independently prepared. For example, the purchasing department might make estimates for disbursements for raw materials based on an estimated annual sales volume, without any attempt to coordinate these estimates with other plans. The purchase budget should of course, be synchronized with the need to build up finished goods inventory in anticipation of seasonal peaks, changes in product specifications, decisions to purchase some subassemblies rather than manu-

facture them, availability of cash to make quantity purchases, and similar factors.

Budgeting provides an excellent *opportunity* to coordinate activities, but the actual fitting together of plans requires specific attention and often hard work. This is one aspect of budgetary control where a central staff unit can be particularly helpful.

Joint participation in adjustments. Not only should the original budget estimates be coordinated, but any necessary adjustments should be dovetailed. For instance, if the sales manager grants the request of a large customer to postpone delivery of a big order for six weeks, it is not enough for him to inform only the production manager. The original over-all budget provided for the prompt completion of this order, and several departments are working to make this possible.

If an adjustment is now to be made, all departments should take part in deciding what is to be done. The treasurer, concerned about working capital tied up in inventory, may suggest operating short hours; but a decision to delay production will cause temporary layoffs and this will seriously affect personnel activities. As an alternative to curtailed production, the sales manager recommends earlier deliveries of other orders, but this requires adjustment of purchasing schedules. Clearly, the sales manager, production manager, treasurer, personnel director, and purchasing agent must all join in the revision of plans. Without this joint participation in the adjustment, the budget may even be dangerous, because some executives, assuming the original budget is still reliable, may proceed to take unwarranted action.

Top management use and support. The effectiveness of a budget as a device for achieving coordination of current operations also depends upon the behavior of senior executives. For example, if the general manager orders a curtailment in a plant expansion program without insisting that corresponding adjustments be made in various departmental budgets, the prestige of the budget will drop sharply. Orders from the chief obviously supersede any voluntary agreements as to coordination, and the man who is following orders from the boss is likely to look with contempt upon a now obsolete program. On the other hand, if the senior executive insists that revisions of the budget be made as soon as major changes are known to be necessary, the budget will soon be regarded as a primary mechanism for interdepartmental coordination.

The initial preparation of the budget contributes to coordination, provided care is taken that the estimates are carefully fitted together. If budgets are to serve as a continuing means of coordination, there should be joint participation in any adjustments and active use and support by top management.

Effective follow-through

Prompt and intelligible reports. The significance of prompt, clear reports for effective control has already been stressed. Reports comparing actual results with budgets are no exception to this principle. Some large companies are able to present operating figures within five working days after the close of the budget period. Even with the use of modern communication devices, however, some of the figures are subject to later revision; nevertheless, the usefulness of the reports is greatly enhanced by this speed in preparation. The sooner the control information becomes available, the easier it is to take constructive corrective action.

A related issue in budgeting is the length of the budget period. For broad planning and control annual budgets may be adequate; but for planning, coordination, and control of internal operations a shorter period is necessary. For most types of enterprise, monthly (or a four-week period) budgets, extending six months or a year ahead, are the most useful. The closer the control desired, the shorter the period that should be used.

Regular use by executives. Even well-prepared budgets and prompt reports on actual operations do not assure that budgeting will be a strong control mechanism. They must be regularly used by operative executives to appraise performance. If a subordinate knows that his chief watches closely budget results and that unfavorable results are sure to lead to a request for explanation, he will (1) try to avoid the occasion for making such explanation by keeping performance up to the budget standard, and (2) when deviations do occur he will try to devise corrective action before he is called into conference. On the other hand, if the executive permits unfavorable results to slip by without comment, the subordinate will soon regard the budget as a set of figures not to be taken very seriously.

Flexibility in budgeting

One of the principal difficulties in using budgets for control purposes is that operating conditions differ from those assumed in prepar-

ing the budget. Sales may be higher or lower, prices may have changed, or other shifts occurred that make it unreasonable to expect operating results to conform to budget. In other words, the standards of performance are no longer applicable. While the budget may continue to be used as a starting point in appraising performance, there is always the troublesome question of how much allowance should be made for these changes in operating conditions. In order to meet this problem, it is desirable to introduce some flexibility in budgeting. The chief ways of securing such flexibility are alternative budgets, so-called "flexible budgets," standard costs, and regular revisions.

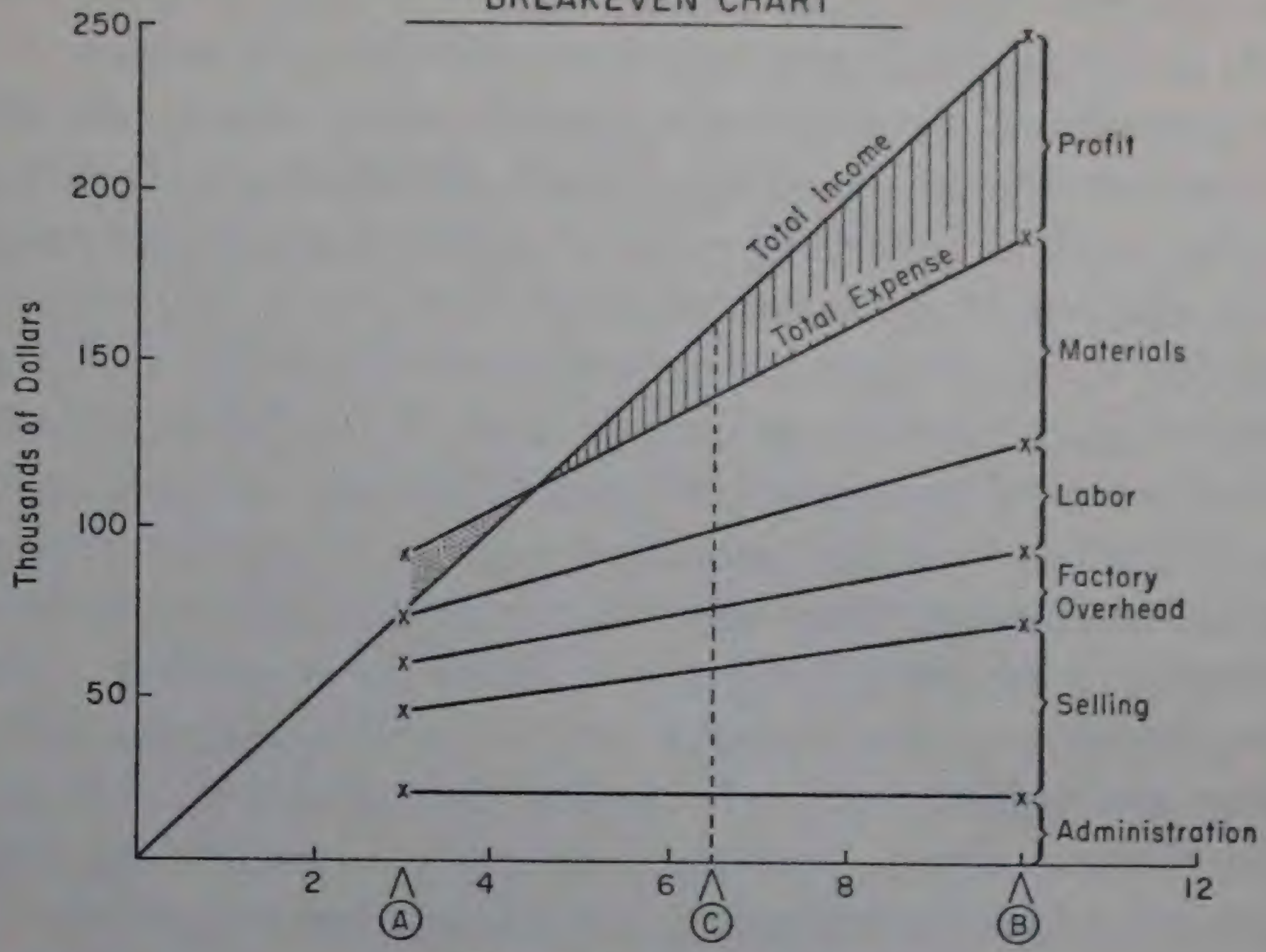
Alternative budgets. One way of securing flexibility in budgeting is to prepare a separate budget for different operating conditions; then the conditions that actually prevail will determine which one is used as a standard for performance. For example, one company prepared three budgets, one based on very favorable business conditions, a second on poor business conditions, and a third on probable conditions, which fell between the other two extremes. The middle budget was really used for operating plans, while the other two indicated what the company might do in event of unexpected shifts in business activity. Had business taken a turn for the worse, the lower budget would, of course, have been used as the standard of performance.

Alternative budgets are time-consuming to prepare and clumsy to handle. Most companies would prefer to either use a single budget or adopt one of the means of flexibility described below.

"*Flexible budgets.*" In their simpler form, flexible budgets are simply a means of interpolating between two alternative budgets. Typically, they are designed to show cost and income figures for different levels of activity. Income and expenses are budgeted for a low level and for a high level; then arrangement is made to estimate what expenses should be for any level of activity in between these two budgeted figures. This can be done mathematically or graphically on what is popularly known as a break-even chart. (See Figure 43.) Once the estimating device is prepared, the executive waits until operations have been completed and the level of activity is known. He then sees what expenses and income should have been for this level and uses these figures as a standard with which to appraise the actual results.

Such flexible budgets or break-even charts have two chief advantages. They provide an operating standard that can be easily adjusted at different levels of activity. Moreover, since they show a condensed

BREAKEVEN CHART



FLEXIBLE BUDGET - MONTHLY DATA

	(A) Low Volume Budget	(B) High Volume Budget	(C) Computed Budget for May
Number of Units	3,000	10,000	6,300
Sales income at $25 per unit	$75,000	$250,000	$157,000
Materials	18,000	60,000	38,000
Labor	13,000	34,000	23,000
Factory Overhead	15,000	22,000	18,000
Selling	22,000	50,000	35,000
Administration	20,000	20,000	20,000
Total expense	88,000	186,000	134,000
Profit or (Loss)	$(13,000)	$ 64,000	$ 23,000

FIGURE 43. Illustration of Flexible Budget with Corresponding Break-Even Chart.

picture of the entire business operation, they are convenient devices for analyzing certain types of business problems. For example, it is fairly simple to estimate the additional volume necessary to offset a cut in sales price.

Flexible budgets are, however, subject to a number of severe limirations from the point of view of both technical construction and

practical use. They are well-suited only to a company or department that makes a single product, or performs some basic operation for which volume of activity can be readily defined. Normally, the only independent variable recognized is volume, and as soon as an effort is made to cover changes in material cost, labor rates, and selling prices (which is often necessary to make realistic adjustments to changes in business conditions) the device loses its great virtue of simplicity. Also, there is usually an implicit assumption that costs will vary with volume at a constant rate, and this often is quite unrealistic. Cost behavior does not have to be described by straight lines, but to do otherwise again introduces complexities into what starts out as a simple scheme.

The operational limitations of flexible budgets are even more significant from the point of view of general administration. In seeking a flexible standard for control purposes, most of the planning and coordinating benefits of budgeting are sacrificed. Flexibility is achieved by evading any question as to level of activity until the period is over, and yet questions of volume lie at the very heart of budgetary planning and coordination.

Break-even charts and flexible budgets, then, are useful as diagnostic tools and in providing flexible standards of expense in relatively simple operating situations. But, for the broad concepts of budgetary control as it has been discussed in this chapter, a partial flexibility is achieved at the sacrifice of most of the benefits.

Standard costs. Although standard-cost accounting is not used primarily to provide flexibility in budgeting, it deserves at least mention in this connection. Standard-cost accounting is typically used by companies making many different products. A standard, or budgeted, cost for each product is first computed; then, as specific quantities of each of these products are put into production in a given month, the standard costs are picked up and added to find what the total costs should have been that month. These total figures are the standards against which actual performance is compared. In this way standard-cost accounting overcomes one of the limitations of flexible budgets, in that it provides cost standards even though varying quantities of different products go through the plant. Standard costs also permit simplification in accounting procedures—a subject outside the scope of the present discussion.

Unfortunately, the computation of standard costs is open to just as serious question as the computations in flexible budgets. Also, as in

flexible budgeting, over-all control standards are computed only after the close of an accounting period, and, because of this characteristic, standard costs are of limited help in planning and coordination.

Regular budget revisions. Each of the foregoing ways of securing flexibility in budgeting is useful in particular situations. Generally, however, flexibility can be secured best through an established plan of regular revision. It is not practical, of course, to revise an entire budget each time there is some change in operating conditions. To do so would entail a tremendous amount of work and the numerous revisions would probably be more confusing than helpful.

A more practical plan is to revise budgets regularly at the end of each month or quarter. Often, budgets will be computed for a year ahead, then at the end of a month (or a quarter) the budget for the immediately following month will be revised on the basis of then current conditions, and a new budget for the twelfth month ahead will be added. In this way a company always has a budget for a year ahead and a revised budget for the immediate future.

Such a plan of regular revision retains the single over-all budget and makes an additional contribution to planning and to coordination in the very process of revision. Since it is usually possible to make fairly accurate predictions of operating conditions at the time the revision is made, the adjusted budget should serve as a good standard of performance for control purposes.

Summary

Budgetary control tends to improve the program planning within an enterprise. It stimulates thinking in advance and leads to specificity of planning. To realize these benefits, however, the budget must be based on actual plans rather than side-line predictions, the organization should be clear cut and paralleled by an account classification so that the plans of responsible people can be directly reflected in accounting terms; and the operating executives themselves must take an active part in the preparation of budgets.

Budgeting also aids in coordination in that it promotes balancing of operations, a general exchange of information, and a variety of direct contacts early enough to give time for corrective adjustment. Here again, full realization of benefits comes only under certain conditions. Someone must make sure that the estimates of the several departments are, in fact, carefully geared together; there should be

joint participation in adjustments to budget figures; and, above all, there must be insistence by senior executives that the budget be used as a coordinating medium.

Budgets provide a distinctive control device because they serve as broad, inclusive standards. Moreover, since they are expressed in accounting terms, it is relatively easy to compare actual results with these standards. Like any other control scheme, its effectiveness depends in large measure upon prompt, accurate reports and consistent use by the executive of the budget information. The chief difficulty in using budgets for control purposes is that they are often made for some period in advance and operating conditions may change substantially before the planned activity takes place. The most generally useable means of providing flexibility to meet this condition is a regular revision of budgets shortly before the beginning of each operating period. Alternative budgets, "flexible budgets," and standard costs may also be used to secure flexibility, and they may be used to assist in the regular revision process.

Budgetary control is no simple road to administrative success. It can be a very helpful tool, provided the key executives use it as an integral part of their administrative activities. Without this patronage, however, budgetary control will be only partially effective, and the burden of preparing budgets and reports may outweigh the curtailed benefits.

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Chapter 25

MOTIVATION

Control, the final phase in the cycle of administration, deals with steps for assuring that performance conforms to plans. This requires setting standards at strategic points and comparing actual performance with these standards, as explained in the two preceding chapters. But if the control is to be active, if it is to have real effect on people's behavior, some positive push is often needed. The executive must see that adequate motivation is provided.

Motivation is closely related to many executive actions. The way plans are set up, the degree of decentralization, promotions and bonuses, consultative direction, and other steps in administration all affect motivation. By postponing a discussion of motivation until this final chapter on control, it is easier to draw all these threads together. Moreover, by considering motivation at the end of the cycle it can be given the strong emphasis it deserves.

The place of motivation. All administrative action is of no avail unless members of the enterprise are willing to contribute effort toward the fulfillment of their assigned tasks. Somehow, some way, there must be developed in each individual a desire to execute his duties effectively. The role of motivation is to intensify this desire.

The mere issuance of directions, however well conceived and phrased, does not mean that they will be followed. We have already noted in the discussion of authority that employees have a zone of acceptance. Instructions falling within this zone will be carried out, while those outside will be disregarded or sabotaged. Fortunately, through the appropriate use of motivation, this zone of acceptance may be enlarged.

Even more important in day-to-day operations is the degree of acceptance. There is a marked variation between the results of grudging acquiescence and enthusiastic, intelligent cooperation. Effective motivation succeeds not only in having an order accepted, but in gaining a determination to see that it is fulfilled efficiently and well.

Need for proper motivation. The experiences of a streetcar company in a large eastern city illustrate the need for proper motivation. The car operators had been complaining of tight schedules for some time, and the situation finally degenerated until there was question whether the schedules would be maintained at all. One car would get behind schedule and, of course, find more people waiting at the corners; then, being crowded, it would take longer to load and unload, with the result that it would get farther and farther behind. In the meantime, the following cars, finding few people at the corners, would be able to pick up speed and soon a whole string of cars would be bunched together.

When the management complained about this performance, the men started the practice of skipping passengers waiting at corners in order to keep on schedule. This aroused considerable public resentment, so to "prove their point" the men said they would follow all the safety and courtesy rules on a single day just to show how unreasonable the schedules were. That day they made gentle starts and stops, never moved across an intersection on the yellow light, helped old ladies on and off the car, waited for passengers seen hurrying to the corner, moved cautiously in traffic, and found other excuses for taking about twice the time of their regular scheduled run.

Definite schedules, performance records, dispatchers, spotters and other control mechanisms helped some, but when a majority of the car operators had no desire to do a reasonably good job the ordinary control and disciplinary measures were quite inadequate. An attempt to fire all the men who were not doing good work would have made the attitude of the men worse, rather than better, and undoubtedly would have created a strike. The union was aggressive in protecting individual men who might be picked out as "examples." Variation in traffic conditions and widespread operations made it virtually impossible to know just how much soldiering on the job took place. Only by making some concessions, providing for an "impartial" investigation of schedules, and resorting to a variety of motivation schemes has the company been able to induce the men to render fairly good service.

The task of creating effective motivation calls for a keen appreciation of human behavior, and in this connection the sociologists, social anthropologists, and psychologists give much valuable information. Consequently, we shall look briefly at the determinants of behavior

before reviewing the various types of incentives that management can use to induce desired performance.

Determinants of Behavior

Individual response to the total environment

An individual takes an action when the satisfactions he derives from doing so outweigh the discomforts and sacrifices that are involved. This does not necessarily mean that people behave in a rational manner based on logical analysis; far from it. Motives that are strong today may be weak tomorrow. Habits and inertia play a large part. Expectations and fears may be ungrounded. One or two factors are likely to influence the decision, rather than a careful appraisal of all that is involved. Nevertheless, to the individual the tugs and pulls are real and he responds to them.

A consulting firm specializing in salesmanship has recently been employed by a number of large corporations to give their executives training in human relations. At first thought this sounds like a superficial approach to a fundamental problem. But closer investigation shows that the technique proposed rests on sound ground. An executive is told to think about the reaction of the people who are to receive an instruction from him, and to separate those reactions that will make the subordinate want to follow the instructions from those which will deter him. These are called plus and minus factors. Then, when giving the instruction, the executive is expected to emphasize the plus factors, and if he cannot actually remove the minus factors he should at least have thought of the best way to respond if some one mentions them.

This particular procedure is, of course, merely good salesmanship, but it also happens to be useful in the supervisor-subordinate relationship because it leads the executive to take the point of view of his subordinate and try to appreciate the constant pulls that will determine that man's behavior. Fundamentally, it is similar to the approach of the social psychologist, stripped of its sophisticated language. The technique still leaves unanswered, of course, just what the reactions will be (a supervisor close to his men may be in a better position to forecast this than a dozen social scientists), and it smacks too much of a top-down approach. Nevertheless, it illustrates that the analytical approach to motivation can be stated simply and put to practical use.

The task of management, then, is to create a situation in which the

actions that the employees choose because of the net personal satisfactions they will derive therefrom, are also actions that produce desirable results for the enterprise as a whole.

Factors guiding individual reactions

Individual needs and characteristics. The way an individual will react to particular instructions and measures intended to motivate him is often hard to predict and even more difficult to explain. Human attitudes and behavior are very complex and as yet inadequately understood, even by the scientists who devote their lifetime to studying them.

The reactions of a person are determined in part by his individual needs and characteristics. His biological needs for such things as food and shelter influence his reactions, but the income of most workers carries them far beyond the minimum requirements of this sort into the consumption of nonessentials, the desires for which are set largely by social custom and attitude.

Individual reaction will also be influenced by a person's emotional and temperamental make-up. In the present discussion it matters little whether these psychological reactions are based upon physical strength, health, or glandular balance. It is important to recognize that man does not live by bread alone and that there are significant differences or variances among individuals in their emotional make-up.

Patterns of belief. Individual behavior is also conditioned by the beliefs of the person.

> . . . Man acts in terms of what he perceives, and what he perceives must pass not only through his eyes, ears and other special senses to reach his consciousness, but also through the dark and irridescent waters of his belief.[1]

These beliefs will exist for every field the individual comprehends. For example, they may include ideas such as the following: committees are good, people who don't speak English are dumb, rattlesnake meat is poisonous, adding machines are always right, breaking a mirror will bring bad luck, God is a loving and omniscient person, one's fellow worker is generally trustworthy, Wall Street tycoons fleece the poor man, the white race is superior, monopolies are evil, and innumerable other accepted ideas.

These beliefs may be right, partly right or dead wrong. They

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[1] A. H. Leighton, *The Governing of Men.* Princeton University Press, 1946, page 288.

range from deeply ingrained convictions to notions readily abandoned. Some are based on personal experience while many others are picked up from parents, playmates, movies, business associates and other persons. An executive should realize that any instruction of his will be interpreted in terms of these beliefs, and that his attempt at motivation will be made easier or harder because of them.

Social organization. The beliefs and reactions of an individual are strongly influenced by the social organizations of which he is a part. These informal groups will always be found when men are associated together. They are formed spontaneously around a neighborhood, church, classroom, work place, interest in baseball, former experience in military service, or other unifying factor that provides a common interest and sense of belonging together. A single individual often belongs to several such groups, although there may be considerable overlapping, especially in a small community.

Many attitudes and beliefs will be acquired from these informal groups. In fact, there is considerable social pressure upon the individual to conform to group behavior. This is clearly evident in the reception a new method is likely to receive from a group of plant employees. When the proposed change threatens to upset the existing group relationship, and particularly if the effects of the change are unknown, there is likely to be strong group resistance against it and each individual is under pressure to join in the group reaction. Continuance as an acceptable member of the group is often more important than holding the job itself, and consequently the individual tends to accept the ideas of the group.

Summarizing: Motivation should be undertaken with a full appreciation of these influences on behavior. Individual needs and characteristics, patterns of belief, and informal social organization guide the way an individual reacts to a request or suggestion. It is necessary to understand them for they determine what shall be plus factors and minus factors in a given situation.

Primary Incentives

The administrator's job of motivation has been described as that of creating a situation in which actions that provide net satisfaction to individual members of the enterprise are at the same time actions that make appropriate contributions toward the objectives of the enterprise. The brief comments on what influences employees' attitudes.

and hence what gives them satisfaction or dissatisfaction, indicate the nature of the motivation problem, but provide little positive guidance to the executive who faces a practical problem of trying to get people to carry out a set of plans. He wants to know whether out of all this study of systems of beliefs, individual needs, and social organization there are any things he can do to increase individual satisfaction or reduce dissatisfaction. He wants a utilitarian and pragmatic twist to the findings of the psychologist and the sociologist.

Principles of motivation are difficult to establish because human behavior is extremely complex and not easily understood; individual differences in human beings are substantial; and people are continuously learning and changing. It is not surprising, then, that the experimental data provide no clear-cut guides for executive behavior.

Nevertheless, there is considerable agreement on a number of factors to which most men respond. The relative importance of these factors will vary with the individual and the particular situation, but they carry weight often enough to warrant serious consideration by every administrator. He will usually get his plans carried out more effectively to the extent he can provide:

1. Higher financial income
2. Social status and respect
3. Security
4. Attractive work
5. Opportunity for development
6. Worth-while activity
7. Personal power and influence
8. Treatment of each subordinate as an individual person
9. Voice in his own affairs for each man
10. Just and diligent supervision.

Higher financial income

Several studies of human motivation have shown that the use of financial income as an incentive has been overrated; there are other considerations that may be more important in some circumstances. It does not follow that financial income is unimportant. For the vast majority of people the possibility of higher financial income is a spur (though not the only one) to cooperation and effort.

For some jobs it is possible to tie the financial income directly to one or more aspects of the results achieved. Sales commissions and piece rates are among the most common examples of this arrangement. Direct financial incentives, however, are generally useful only when the results reflect the man's own efforts rather than extraneous

factors, and when results not included in the incentive can be prevented from deteriorating. Another arrangement is the granting of bonuses on the basis of personal appraisal, rather than according to an automatic standard. Aside from those paid to top executives, such bonuses are usually a relatively small part of the total compensation.

By far the most common financial incentive is the possibility of a permanent increase in pay while remaining in the same position, or an increase in pay that accompanies promotion. This type of incentive fits in with the United States tradition that each person has the opportunity to advance to positions of ever-increasing responsibility and compensation. It has been and should continue to be used as a motivating force.

The threat of lower financial income can also be used as an incentive in a limited way. Disciplinary layoffs, demotions, or discharges occasionally have to be used for employees whose conduct is unsatisfactory. Modern personnel practice and union pressure both frown upon use of these devices, except as a last resort for an irresponsible employee. They should be resorted to only for the violation of a well-recognized and important rule, or after there have been at least two warnings and conscientious effort to help correct unsatisfactory performance.

Even when used in this restricted manner, however, the possibility of reduced income does serve as incentive to a large number of employees who might be more lackadaisical if there were not the possibility of such action. Witness the deterioration in effort that sometimes occurs among Civil Service employees, where efforts to avoid the political spoils system have almost eliminated the possibility of disciplinary layoffs or discharges. The possibility of layoff, demotion, or discharge, of course, becomes much more realistic when a company is cutting back on the number of its employees, and when such cuts are not governed by seniority rules. In all these situations the threat of a cut in financial income is a negative incentive. Under a negative incentive an employee is concerned with whether he can "get by." His enthusiastic cooperation must be won by other means.

Social status and respect

Most men will put forth a considerable amount of effort in order to win the respect of their associates, that is, to maintain and improve their social status. In fact, the desire for higher compensation is in no

small measure due to the prevailing attitude that the amount of money a man earns, or spends, is a measure of his success.

To be held in high regard by one's fellow workers is a real incentive. The salesman who can get an order from the tough customer, the moving man who can handle a loaded wardrobe trunk by himself, the accountant who really knows all the angles on income tax, and the weaver who can keep his looms running most of the time are all respected citizens. Recognition as a first-class workman, whatever the position held, provides deep satisfaction to almost every person. Moreover, an individual likes to feel that he is important to his department or group; while he may not be indispensable, he likes to feel that his contribution is important enough so that group action will not be the same without him.

Most men are also responsive to the attitude of their neighbors and other acquaintances who are not employed by the same establishment. Working for a well-regarded company and having a title that sounds impressive contribute to one's social status. This is particularly important for charitable and government enterprises, or professions like the ministry, where financial remuneration is relatively low, and a man must derive some of his compensation from the respectability of his calling.

The attitude of the boss is also important. Of all individuals, certainly here is one who should give recognition to a job well done. Especially when there is a personal loyalty between a man and his supervisor, the man will often go a long way in order to maintain the respect of his chief.

Social status and respect is not an incentive that an executive can pass out as he sees fit. The attitudes of fellow-workers and neighbors are not necessarily more favorable just because a man carries out his instructions conscientiously. Nevertheless, it is possible for an executive to do things that contribute to the stature of an individual in the eyes of his associates.

Recognition given publicly, explanations of the importance of a man's job to other people, identifying the individual as having contributed to the over-all success of the enterprise, all contribute to a man's social status. Medals and ceremonies have a more limited place in business than in military operations, but the public recognition they convey is similar to the recognition an executive should try to cultivate for those of his men who perform effectively.

Security

Security, at least economic security, has become a well-recognized goal for individual action. Old age pensions, unemployment insurance, life insurance, accident and sickness benefits, and other forms of economic protection have grown by leaps and bounds during the last generation. While much of this protection is provided or sponsored by governmental action, there remain a variety of formal and informal arrangements that independent enterprises make for their own employees. There is no doubt that these measures contribute to the satisfaction of an employee with his job. The critical question is, "How much?" since the expense of many of the plans is quite high and relatively inflexible.

A sense of security, however, embraces much more than economic matters. It also includes a self-confidence that comes with a personal adaptation to a given environment. Self-confidence with respect to a job stems from a number of things, not the least of which is knowing what to do, how to do it, and how well one is doing it. These are factors in self-confidence that every executive should provide to his subordinates. The feeling of security of the man who knows his job and knows that he is doing it well differs sharply from that of the individual who is still bewildered and not sure of his ability to measure up to the job ahead of him.

Uncertainty breeds a feeling of insecurity. While there are some Micawbers, most of us have a penchant for imagining all manner of trouble when we don't know what is going to happen. Grapevine information regarding a possible change in executives, in methods, or in other features of a work situation often gives rise to all sorts of rumors and uneasiness.

Executives at all levels can do much to remove this source of insecurity by sharing information with their subordinates. In particular, it is desirable that subordinates know as far in advance as possible about changes which will affect them. One of the best ways to remove fear of such changes is to have those involved participate in the discussions and planning of the change. Often the subordinates will bring forth suggestions that will be useful, but the important point here is that if they have an opportunity to understand the reason for the shift and to know that serious consideration is being given to things that affect them, much mental anxiety can be avoided.

These measures for increasing an individual's sense of security can-

not, of course, be provided piecemeal as a direct reward for increases in efficiency. They are incentives only in a general and perhaps negative sense. The effort, the enthusiasm, the drive of a person is undermined if he feels insecure. On the other hand, when he is free from this worry he is in a position to devote his energies to constructive work. The executive who can make his workers feel secure significantly increases the chances of successful execution of his plans.

Attractive work

The work a man does on his particular job, and especially his attitude toward it, has a significant bearing on the enthusiasm with which he carries out plans. When a man has a feeling of craftsmanship, when he takes real pride in the accomplishment of a job well done, his work can provide him basic satisfaction. Milling an edge to a fine tolerance, producing an intricate drawing, hiring a group of salesmen, writing a clear job description, and innumerable other tasks all take skill. Most men take pleasure in doing well those things that call for their particular skill.

Closely related to craftsmanship is creativeness. Both the capacity and the opportunity for creativeness are less common, but when it is present in a job it can be a challenge and a source of deep satisfaction. Creativeness is not confined to artists and inventors; the engineer, the advertising-copy writer, any top executive, and many others have an opportunity to exercise originality.

Still another source of satisfaction from many jobs is that of adventure. Executives, salesmen, production workers trying to set a better record than another department, and many others get a thrill out of meeting competition and unforeseen hazards. Jobs vary in the opportunity they provide for craftsmanship, creativeness and adventure; nevertheless, at least some of these satisfactions can be derived from almost every job, since they arise in part from the attitude of the worker himself and the way the work is directed. The supervisor can do much to build up these sources of satisfaction.

The work will be more attractive and challenging if it makes the best use of a man's ability. One company transferred a salesman with only a fair record to a temporary assignment in the office. His ability to deal with people plus a willingness to attend to detail was better suited to supervisory than to selling work, and he is now an outstanding success at his new job. Experienced executives can provide many similar illustrations of the marked effect on performance of "putting

a square peg in a square hole." This best use of a man's ability is primarily a matter of personnel placement; it can be achieved to some extent by reallocation of duties.

Of course, at any given time there are limitations of what work needs doing, and the employee may have misconceptions of his own ability. These difficulties in application should not be permitted to overshadow the stimulating effect of making the best use of a man's ability insofar as it can be arranged.

Working conditions, such as adequate light, comfortable temperatures, attractive surroundings, good eating and toilet facilities, protection against accident, and so forth do make a difference in the attractiveness of a job. Their contribution to greater employee satisfaction depends to a large degree upon the attitudes and the beliefs of the workers. What were regarded as attractive hours and working conditions in 1900 would cause discontent today. Beyond basic minimums it is more the improving of conditions that is important. The new lunchroom or the five-day week boost morale when first installed, but within a few years they become an accepted thing and lose their motivating effect (except that they must be continued to avoid a negative reaction). For most companies, therefore, it is practical to attempt only to keep up with the cultural pattern in the industry and the community, perhaps occasionally leading but not relying upon arrangements for work to provide a large, positive stimulus to greater effort. Social recognition, treatment as an individual, and opportunity to participate have been demonstrated to be better stimuli to action than even the most generous paternalistic action.

Opportunity for development

In addition to attractive work in their present jobs, most individuals are concerned about opportunities for development. People grow and change, and they like to feel that as they gain experience they will have a chance to move into positions of greater responsibility and respect.

This is especially true in the United States where our traditions and heritage emphasize development. The hard-working pioneer opened up a territory where his children often became leading citizens in a thriving community. Immigrants have passed through apprenticeship to become supervisors or business enterprisers, and they or their children have become our leading statesmen.

The nature of our frontier has changed, and our social and eco-

nomic structures are less fluid, but the desire to advance continues to be a strong current in our aspirations. The executive who provides his subordinates with an opportunity for development has a forceful means of winning support for the execution of his program. Measures for executive development described in Chapter 20 serve this purpose well, and similar techniques can be used for non-supervisory personnel.

Some executives or entire companies take the view that desire for personal development is such a good incentive that they should assist employees to find suitable employment for their new talents, even though this means that some of them will have to transfer to other departments or companies.

Worth-while activity

Men will work harder when they feel they are performing some really worth-while service. This is eloquently demonstrated in the time and effort devoted by volunteers to the Community Chest, Boy Scouts, church activities, political reforms, and many other worth-while activities. Just as dominating objectives provide a unifying force for coordination, so do they stimulate effort to fulfill individual missions.

The spur of a worth-while activity is by no means confined to charitable causes. The man who is being paid for his services by a private-profit enterprise still likes to feel that his activities are worth while. If he can see that people are happier, toil and drudgery is being reduced, suffering relieved, physical and social strength improved, or in some other way the world is a somewhat better place to live because of his efforts, he is much more likely to work with enthusiasm and zeal. In other words, he should believe the objectives of the enterprise are socially desirable.

The administrator should seek to harness the enthusiasm that comes with believing in a cause. Two steps are necessary. The employee should be made to believe as deeply as possible in the desirability of the concern's objectives. Secondly, it is necessary that individual employees see how their activities make a significant contribution to the success of the enterprise in achieving these objectives.

Personal power and influence

There is no doubt that many people get satisfaction from the exercise of personal power and influence. This does not necessarily

mean that they resort to unethical means to obtain power, or that they are careless or arrogant in its use. It is simply the exhilaration they get from being able to commit the company for large sums, from feeling that their influence was important in the passage of a new piece of legislation, from pulling open the throttle of a large locomotive.

An executive can add or take away from the power of his subordinates by a change in delegation. He may give the man additional duties, perhaps including the supervision of more people, or he may increase or decrease the authority of the man to make binding decisions. Even though there are distinct limitations on the power that can be conveyed by administrative delegations, it still may be significant. A man who desires such delegation will try to prove himself worthy by cooperating with his supervisor and by effectively carrying out his duties.

Treatment as an individual person

There is always danger that employees will be thought of merely as persons who perform certain duties for the enterprise. Although his work may absorb a considerable part of the efforts of an individual, he has many other interests. Family relationships, living arrangements, personal health, hobbies, religious and social life, aspirations, obligations, all are important to the individual.

There must be a reasonably satisfactory adjustment and integration of these outside interests if the person is to perform most effectively on his job. The employer should not attempt to direct the personal affairs of his employees, but there is need for a sympathetic recognition of these problems and a willingness to help in meeting them. This treatment of subordinates as individual persons can go a long way in winning their loyal support and cooperation.

The personal relationship between an employee and his supervisor should be at least agreeable. Often it is possible to develop a friendliness and loyalty that is a strong influence in carrying out instructions enthusiastically. At the other extreme, personal friction may become so strong that the subordinate prefers not to carry out instructions merely because he has been asked to do so by his supervisor. Personal likes and dislikes cannot be molded at will, but every supervisor should try to keep his relationships with subordinates as pleasant as possible, so that personal loyalty will be at his disposal as an incentive.

One fairly simple though important way of giving recognition to

subordinates as individuals is to share with them information about current problems and future plans. The man who is "in the know" feels complimented by the confidence and is more likely to identify his interests with those of the enterprise.

Voice in own affairs

One of the more difficult things for well-meaning executives to remember is that people like to participate in forming decisions that will affect them. Even a plan that is quite beneficial to employees may receive a cool reception if it is prepared and announced in a haughty or condescending manner.

This desire for a voice in the planning that bears upon a man's own work has several sources. The man on the firing line feels that he has intimate knowledge that should be brought to bear on the decision. Since the decision will affect his work significantly, it is a sign of respect to be consulted in the matter. Many people do not like to feel beholden to others. A person is more likely to understand and support an action that he has helped plan. Whatever the explanation, this desire for participation is prevalent, and becomes increasingly strong among competent and self-reliant persons. It is particularly significant to motivation because it affects the attitude of an individual toward his assignment.

The executive should recognize and take advantage of this desire for a voice in one's own affairs. As a minimum he should be sure to advise each person in advance of changes which will affect the latter's work situation. Even if the change is relatively insignificant, such as electricians putting in some new wiring, the man should be accorded the courtesy of knowing what it is about. On the positive side, the process of consultative direction discussed in Chapter 21 can often be used to gain ideas and win support of subordinates for a program. It creates an attitude of working together rather than working for, and the resulting "we" feeling often is a strong incentive.

Just and diligent supervision

The attention given to a man's grievances and needs, the manner of commendation, and the fairness of disciplinary action can add much to the spirit that a subordinate applies to his job.

Grievances should be settled promptly. The way should be open for a man to register complaints about his treatment, and if he feels his immediate supervisor has been unfair, channels of appeal should

be provided. These grievances, petty though they may appear to be to the supervisor, should be examined promptly and the man informed either of corrective action being taken or of the reasons why the situation cannot be adjusted. Unless these annoyances and feelings of mistreatment can be aired and adjusted, the employee will carry with him a gnawing discontent that may seriously detract from his enthusiasm for his job.

On the positive side, each executive should take the initiative in seeing that his subordinates are well "serviced." He should represent their interests to other departments and higher echelons in administration. This representation may relate to compensation, working conditions, flow and quality of work, opportunities for advancement, and other points of concern to his men. Diligent attention to such matters will avoid many grievances before they develop, and will build loyalty on the part of the men.

The executive should also use commendation to build cooperation among his subordinates. Outstanding performance should not be left unnoticed. Generally, it is desirable to recognize and praise the performance in the presence of others, since this not only tells the man of his chief's opinion, but also adds to the prestige of the man in the eyes of his associates. In giving commendation care must be taken that it is done fairly; if only one man is singled out when others are equally deserving, or the achievement really represents group effort, then those who have been overlooked may feel disgruntled.

The praise should be sincere and deserved. If a man needs encouragement it is better to pick out some part of his performance that is worthy of commendation than to give broad and unwarranted compliments, for otherwise the commendations may soon come to be regarded as "hot air," and may even be a source of embarrassment at subsequent salary reviews or when the need for improved performance is being discussed.

Reprimands also serve an important role in motivation. While they should be given promptly, the supervisor should take time to get and weigh the relevant facts and he certainly should not be angry. Generally the reprimand should be given in private, and the offender should have an opportunity to tell his own story.

When disciplinary action is necessary it should not be given in a spirit of retribution, or for the prime purpose of humiliating the offender. The purpose of discipline is to bring about improved conduct in the future; hence it is necessary to consider the circumstances

and provocation, and the attitude, previous conduct, and personality of the individual. It is also important to consider the effect of the disciplinary action on the attitude of other workers; too harsh a punishment may make the man a martyr, whereas too lenient treatment may be interpreted as meaning that the executive considers the matter lightly.

The matter of equity is likewise important. Rules of desirable conduct should be generally known, and where penalties for violation are severe this fact should be announced in advance. In most situations warning of penalties if the act is repeated is all that is necessary. It is particularly important that disciplinary action be equitable as between individuals. Unless consistency and fairness characterize the action, its constructive influence on future behavior is likely to be lost.

In all this range of supervisory activities there are possibilities of either creating discontent or building a cooperative spirit. Consequently, the executive should never forget that just and diligent supervision will contribute greatly to his success in getting plans carried out.

Summary

The effective execution of plans requires a desire to see them succeed on the part of those who have to do the work. Therefore, it is necessary for an executive to really understand what motivates the actions of people working for him.

Each individual has a variety of desires and beliefs that shape his reactions to any particular instruction. It is the task of the executive to arrange the total work situation, or perhaps modify individual and group attitudes, so that each of his subordinates finds greater satisfaction in carrying out instructions than in following any of a number of alternatives open to him. In fact, he needs not merely passive acceptance, but a positive desire to do the work effectively and efficiently.

In building such an attitude in his subordinates an executive should consider a variety of measures. Important in this connection are higher financial income, social status and respect, security, attractive work, opportunity for development, worth-while activity, personal power and influence, treatment as an individual person, voice in own affairs, and just and diligent supervision. Some of these measures

provide a general background of cooperative effort, while others can be related directly to performance of particular instructions. They, of course, should be used in varying combinations to meet specific situations, for it is the total situation to which an individual reacts.

In reviewing this general approach to motivation two final points deserve emphasis. One is "the tremendous importance of trifles" in building the enthusiastic support of subordinates. The other is the need for economy in the use of specific incentives. The building up of stronger motivation than is necessary not only wastes the executive's time, but often tends to lessen the effectiveness of these incentives when they are used later. There is much need for a sensitive and sympathetic understanding of human behavior in the motivation phase of administration.

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CONCLUSION

Chapter 26. Putting Administrative Principles to Work

Chapter 26

PUTTING ADMINISTRATIVE PRINCIPLES TO WORK

Principles of administration, like principles in any other field of activity, must be adapted to real problems if they are to be of practical use. This adjusting and fitting of a general idea to the specific situation is a very important part of the "art of administration."

Throughout this book suggestions will be found for applying the principles which have been discussed. Most of the basic ideas have been stated in terms of executive action; this was done to help in the transition from principle to practice. Nevertheless, there remain three broad points that deserve emphasis:

1. Be sure to get the facts.
2. Adjust to individual personalities.
3. Consider the whole situation.

Be sure to get the facts

Every concrete management problem has its own specific setting. The industry, the company, the people directly concerned, the external forces, the preceding chain of events, and many other aspects vary from one problem to another. Executive action to meet a given problem must take these technical and economic facts into consideration.

Management principles by themselves are as sterile as mathematics; only when the retail clerk or the engineer applies mathematics to actual facts does it give tangible results. Likewise, management principles are useful only when they are skillfully applied to the facts in a given situation. In other words, expertness in management *per se* is no substitute for the knowledge and judgment growing out of intimate contact with the operations themselves. Nor, it may be added, does a great store of facts necessarily give a man skill as an administrator. Both are essential to effective administration.

This book has stressed basic processes and principles, because that

is its purpose. It is hoped that this in no way detracts from the significance of good information, or what the army calls "intelligence," in practical administration.

Adjust to individual personalities

A second point that should be made in this brief conclusion is the need to recognize the cardinal importance of individual personalities in actual administration.

Administration—a segment of human relations. Administration was defined in Chapter 1 as "the guidance, leadership, and control of the efforts of a group of individuals toward some common goal." While the executive must give attention to technology, physical facilities, capital resources and the like, his predominant concern—as the definition implies—is with human relations.

The underlying significance of human behavior has been referred to repeatedly. For example, in the discussion of *planning* attention was called to the effect of detailed planning on individual initiative, and later to strategies that are largely concerned with the interplay of personalities. Similarly, in the section on *organization* the need to adjust departmentation to available personnel and informal organization was noted. Other examples in this section include the effect of decentralization on morale, and the necessary adjustment to personalities in the process of delegation and in deciding upon an effective span of supervision. The section on *executive personnel*, of course, deals explicitly with the human factor. Again, under *direction and coordination*, the importance of the human element is illustrated in the application of the concepts of indoctrination and consultative direction; voluntary coordination is built upon personal objectives and social intercourse. In the final section we noted that administrative *control* is dependent in a large measure upon providing proper motivation to those whose joint efforts are necessary if objectives are to be attained.

These are merely convenient examples of the ever-present need to regard administration as a social process. Unfortunately, our present knowledge of social psychology and other aspects of human behavior is far from exact. To a large extent, administrative principles set forth in this book are pragmatic; that is, they are believed to be sound because executives in a variety of enterprises have found that they work. As the scientists increase our knowledge of individual and

group behavior, we will be able to refine these principles so that they will be even more effective.

Recognize individual differences. These principles of administration are, of course, based on the common or typical behavior of the employees. It should be recognized, however, that the attitudes and behavior of a specific individual will vary to a greater or lesser extent from the common pattern. The physical characteristics and personal history of each individual give him a distinct personality in at least some respects.

In a specific situation, then, the executive deals, not with men in general, but with separate and distinct personalities. He should take account of individual differences, and where there is a sharp variation from the common pattern it may be necessary to modify the action normally required by a general principle. For example, if an otherwise good subordinate lacks ability to get things done on time it may not be practical to decentralize as much as the general organization structure provides. Similarly, an individual with an unusual amount of energy may be given a larger span of supervision. Men differ considerably in their response to different types of motivation, and better control often can be secured if the executive is able to adapt incentives to the particular individual involved.

Adjustment to individual idiosyncrasies may have repercussions on other people doing related work, and it may create precedent and habit that will cause inefficiency at a later date. Consequently, care is necessary in making such adjustments. The executive should be ever alert to individual differences, but the extent to which he caters to them, capitalizes on them, or seeks to modify them, is a part of the art of administration.

Consider the whole situation

The skillful application of administrative principles requires, in addition to knowledge of local facts and adjustments for individual personalities, a capacity to sense the entire administrative operation. Management of an enterprise must be understood as a whole, as well as in its parts.

Interdependence of planning, organizing, assembling resources, directing, and controlling. In actual practice, management problems rarely fall neatly into a single niche. Two or more of the phases of administration are often involved. For instance, what may appear to

be largely a control problem frequently can be resolved only after plans or organization have been improved. Similarly, good executive selection and development starts with organization analysis; the degree of decentralization has a marked effect on the type of direction that is desirable. Many management problems are likewise multi-phase in nature.

Consequently, when applying principles to a particular problem one should be ever on the alert for the repercussions a proposed change may have upon other phases of the operation. For purposes of analysis and as a guide to executive thinking, a somewhat artificial separation of administration problems has been presented in this book. Useful as this is as a way of thinking, it does not justify only partial study of a problem. Practical solutions will be found only when the entire administrative operation is brought under review. Perhaps the remedy will deal with only one phase of administration, but it is not safe to assume that this is so until possible interrelations have been carefully considered.

Web of related decisions and actions. The need for taking a broad view of a specific administrative situation also arises because planning, organizing and assembling resources, directing, and controlling are going on at the same time. As pointed out in Chapter 2, it is rarely practical to delay action on a problem until all plans have been completed. For example, once objectives and a broad program have been mapped out it is often necessary to set up preliminary organization and to hire key personnel, inasmuch as these people will probably do much of the detailed planning. To cite another example, product specifications may be established in detail and orders issued for actual production of an initial run before the sales promotion department begins its task of planning a sales campaign. Furthermore, since a single executive is usually concerned with several different projects, he may be involved in exploratory planning of one, making final decisions with regard to a second, and controlling the actual performance of still a third, all in the same day.

The use of specialized staff units to help plan and control in their respective areas and the varying degrees of decentralization in different departments add still further complexity to the realistic operating situation, particularly in large-scale enterprises.

Improvement in administration will be accomplished only if the executive is able to penetrate through this interlacing of plans and actions. He should recognize it as the mosaic pattern upon which

I	II	III	IV	V
PLAN	**ORGANIZE**	**DEVELOP KEY PERSONNEL**	**DIRECT and COORDINATE**	**CONTROL**
1. Develop integrated and comprehensive plans. a. Use all types of plans: 1) Objectives and sub-goals. 2) Single-use plans. 3) Standing plans. b. Weigh detail and period covered. 1) Benefits of planning: a) Crises avoided. b) Better methods. c) Easier delegation. d) Basis for control. 2) Limits on planning: a) Unreliable forecasts. b) Nonrecurring problems. c) Danger of inflexibility. d) Expense of planning. e) Time required. f) Effect on individual. 2. Use these steps: a. Clarify the problem. b. Determine alternatives and key factors. c. Get the facts. d. Analyze the facts. e. Decide on action. f. Arrange for execution. 3. Improve planning. a. Make careful forecasts and experiments. b. Simplify planning. 1) Use standard parts. 2) Plan within limits. 3) Use institutional mind. 4) Organize for planning. c. Recognize: 1) Logical considerations. 2) Psychological hazards. 3) Strategic considerations.	1. Establish departments which: a. Make use of specialization. b. Facilitate control. c. Aid in coordination. d. Secure adequate attention. e. Recognize local conditions. f. Reduce expense. 2. Provide staff and service divisions where needed. 3. Clarify relations between units and men. a. Decentralize where practical. 1) Who knows facts? 2) Capacity of men. 3) Need for speed. 4) Need for coordination. 5) Importance of decision. 6) Executive load. 7) Effect on morale. b. Identify staff responsibility. c. Use functional authority cautiously. 4. Build a sound structure. a. Assign all duties. b. Avoid dual subordination. c. Keep spans of supervision workable. d. Use committees wisely. e. Provide for top-management. f. Seek: 1) Even strata. 2) Consistent departmentation. 3) Parallel departmentation. 4) Simple structure.	1. Determine executives needed, through: a. Job descriptions based on organization analysis. b. Man specifications. 1) Innate qualities. 2) Skills that are acquired. c. Promotion programs. 2. Appraise and select executives, using: a. Group judgment. b. Periodic appraisals. 1) Present performance. 2) Growth potential. c. Trial on a series of jobs. d. Psychological tests. 3. Develop executives by: a. Learning on the job. b. Rotation among jobs. c. Committees, conferences, and company courses. d. Assistance in individual development. 4. Compensate executives wisely. a. Build a sound salary structure. b. Recognize individual performance. c. Use bonuses, stock options, etc. for special cases.	1. Give directions that will obtain desired results. a. Issue good instructions. 1) Compliance reasonable. 2) Complete. 3) Clear. 4) Written, when:: a) Of major importance. b) Covering long time. c) Affecting several people. b. Always follow up instructions. c. Use standard practices and indoctrination to simplify directing. d. Explain why to ensure understanding. e. Use consultative direction in key relationships. 2. Promote coordination in all phases of administration. a. Harmonize programs and policies. 1) Check for consistency. 2) Synchronize timing. b. Organize for coordinated action. 1) Group closely related activities together. 2) Make organization and procedures clear-cut. c. Design effective means of communication. d. Aid voluntary coordination. 1) Instill dominant objectives. 2) Develop customs and terms. 3) Encourage informal contacts. 4) Provide liaison men where needed. 5) Use committees. e. Coordinate through supervision.	1. Set standards at strategic points. a. Tie standards to individual responsibility. b. Concentrate on strategic points. c. Use integrated budgets. 2. Check on performance. a. Use required confirmation sparingly. b. Concentrate on exceptions. c. Observe personally. d. Design reports for action. 1) Prompt. 2) Pertinent. 3) Interpreted. 4) High-lighted. 5) Forceful. 3. Take corrective action. a. Adjust physical and external factors. b. Review direction, training, and selection of men. c. Modify plans where necessary. d. Motivate men through: 1) Financial income. 2) Social status. 3) Security. 4) Attractive work. 5) Opportunity. 6) Worthwhile activity. 7) Power. 8) Personal attention. 9) Participation. 10) Just supervision.

FIGURE 44. Five Basic Processes in Administration.

improvement must be built, and at the same time not be confused by its complexity.

Follow analysis with synthesis. This complexity of actual operations tends to hide the basic principles and processes of administration that are being used. Therefore, when dealing with a concrete problem, careful analysis is a first step toward improvement. The basic outline of this book, which is summarized in Figure 44, provides one approach that may be used in analyzing an over-all management problem.

Analysis, however, is not enough. Having broken the total operation down into parts or stages and designed improvements for at least some of them, it is necessary to put the parts back together into a new working whole. Here again the outline of the book will be of assistance. The broad headings—planning, organizing, assembling resources, directing, and controlling—are more than a list of potential trouble spots for the executive. These processes, when considered together, represent a comprehensive and basic view of administration as a whole. They are related together in a logical and realistic fashion. Thus they provide a framework upon which to build an integrated view of administration in a specific situation.

The outline of the book, then, should be regarded as a tool for analysis and for integration when dealing with broad management problems

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